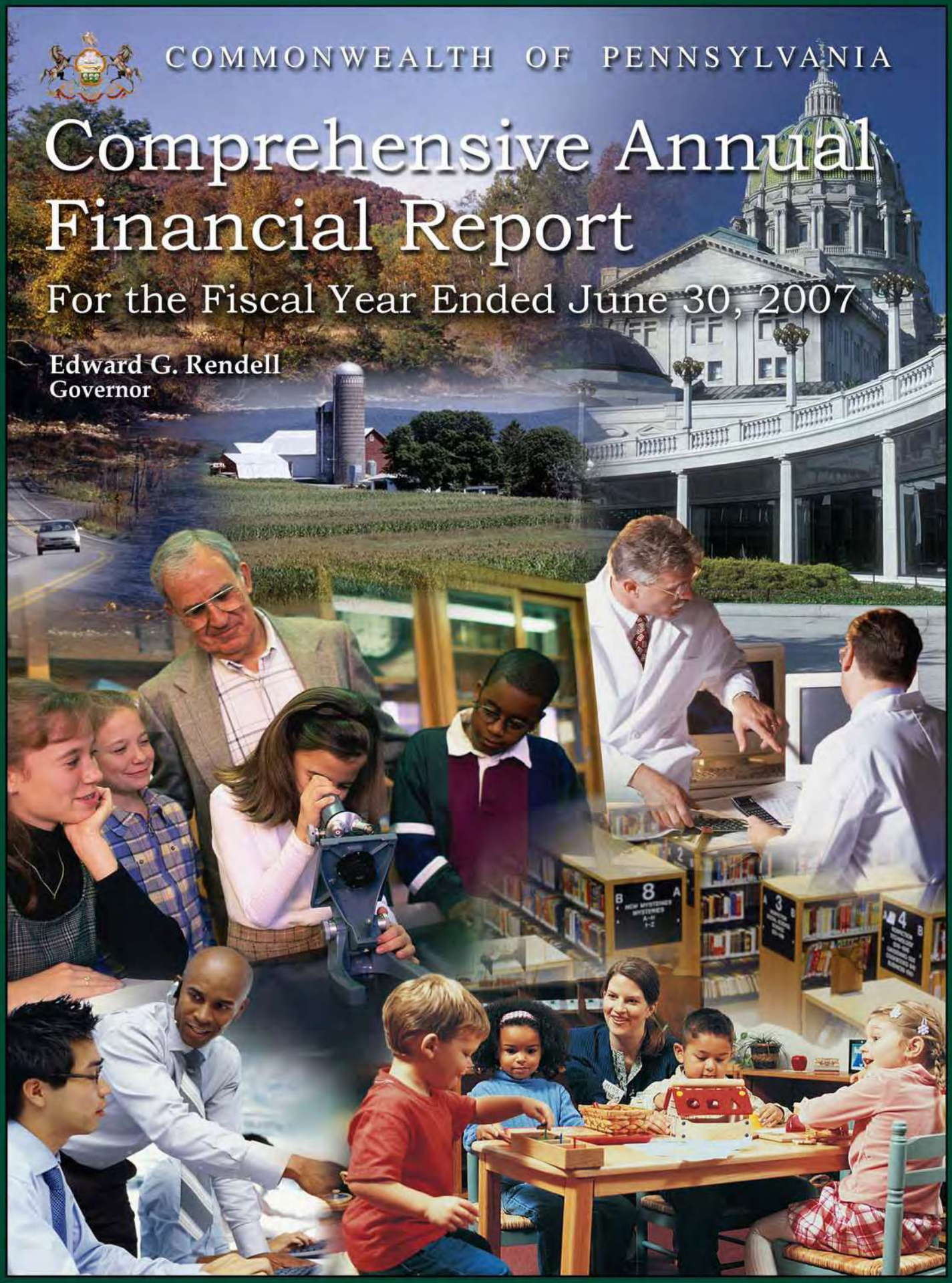
COMMONWEALTH OF PENNSYLVANIA
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007
Edward G. Rendell
Governor

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2007

Commonwealth of Pennsylvania
Edward G. Rendell
Governor

Prepared By:

Office of the Budget
Michael J. Masch, Secretary

Comptroller Operations
Harvey C. Eckert, Commonwealth Comptroller

The Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania (CAFR) is provided on the World Wide Web in Adobe Acrobat (.PDF) format for the convenience of distribution. Printed copies are generally not available, but may be requested from Roxanne Petrovich at the following address:

Office of the Budget, Bureau of Financial Management, 6th Floor, Verizon Tower, Strawberry Square, 303 Walnut Street, Harrisburg, Pennsylvania 17101-1830

The CAFR contents can be accessed through this link: Table of Contents

Commonwealth of Pennsylvania
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2007

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COMMONWEALTH OF PENNSYLVANIA
GOVERNOR'S OFFICE
HARRISBURG

December 20, 2007

MICHAEL J. MASCH
SECRETARY
OFFICE OF THE BUDGET

To the Honorable Governor, Lieutenant Governor, Members of the General Assembly, and Citizens of the Commonwealth of Pennsylvania:

We are pleased to present this Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2007. The Office of the Budget, Office of Comptroller Operations, prepared this report, which includes the Basic Financial Statements (BFS), pursuant to the power vested in the Governor under Section 701 of the Administrative Code and delegated to the Secretary of the Budget by Executive Order No. 1984-3, dated October 11, 1984.

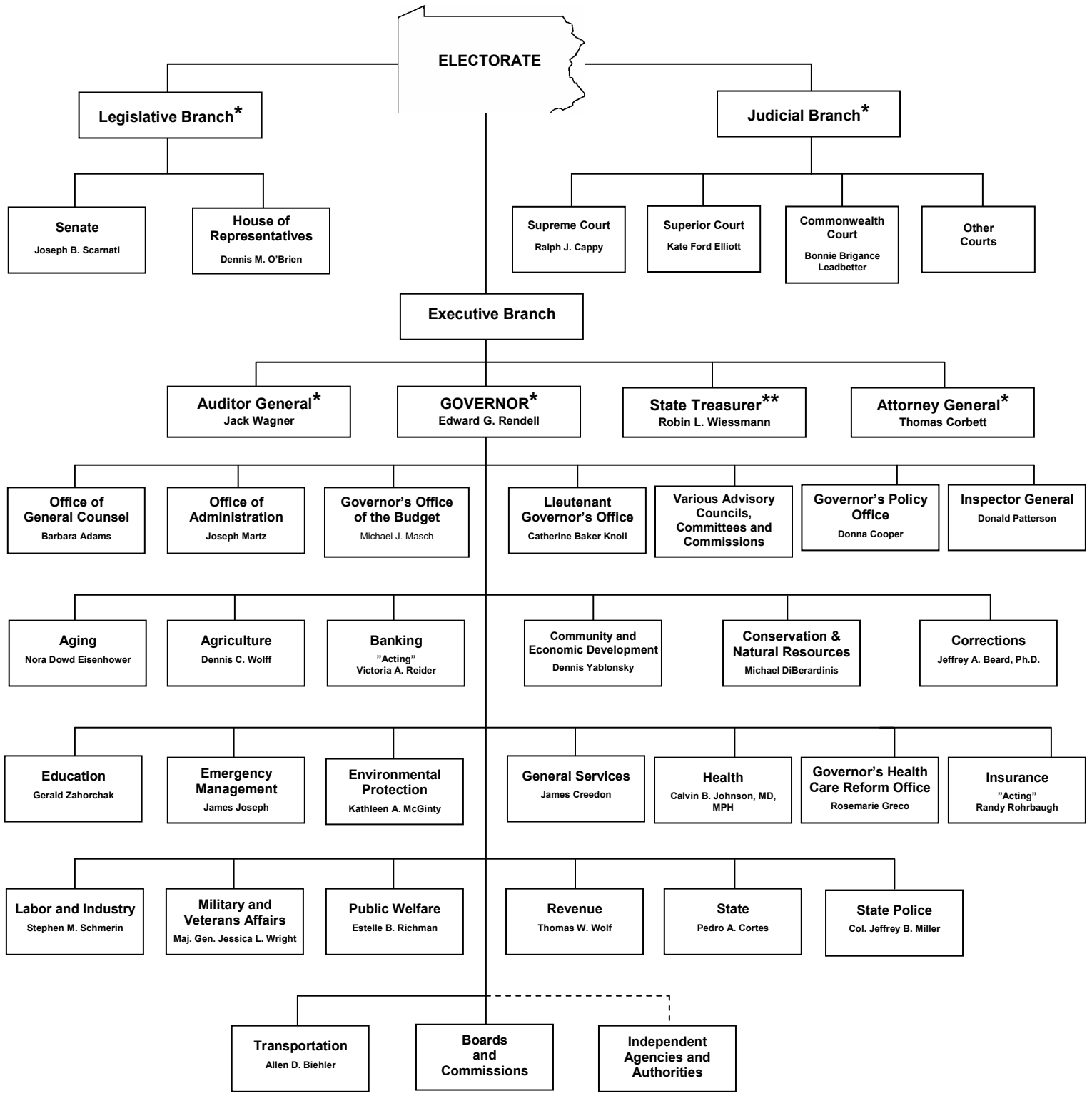
The BFS were prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). We believe the financial statements are fairly stated in all material respects; that they are presented in a manner designed to fairly report the Commonwealth's financial position, results of operations, and changes in net assets/fund balances. All disclosures necessary to enable the Governor, the members of the General Assembly, the public, and the financial community to fully understand the Commonwealth's operations and financial affairs have been included. The BFS include information about discretely presented component units, which are legally separate organizations for which the Commonwealth is financially accountable. Responsibility for the completeness and fairness of the presentation, including all disclosures, rests with the Commonwealth of Pennsylvania, Office of the Budget, Office of Comptroller Operations. The Commonwealth relies on its comprehensive framework of internal control in the preparation of basic financial statements. The Commonwealth has established a cost-effective system of internal controls; that is however, subject to inherent limitations, as is in any system of internal controls, in that there is reasonable, but not absolute, assurance as to the effectiveness of the internal control system.

Management's Discussion and Analysis (MD&A) precedes the June 30, 2007 BFS, provides an overview of the Commonwealth's financial position and activities thus helping readers to understand the government-wide statements. This section immediately follows the auditors' opinion. In addition to the MD&A and BFS, this CAFR includes: budgetary comparison schedules, combining fund financial statements; supporting schedules; certain narrative information describing individual funds; and statistical tables presenting financial trends, revenue capacity, debt capacity, demographic and economic information, capital asset and operating information about the Commonwealth.

PROFILE OF THE GOVERNMENT

Located in the Mid-Atlantic region, the Commonwealth of Pennsylvania is committed to providing a wide range of services to ensure the well-being of the people. It was the second of the 13 original colonies to ratify the Constitution, but was the first state with a hospital, zoo, newspaper, and home computer. The state capitol, located in Harrisburg, is where a strong foundation is laid for Pennsylvania's government system, which strives to better the lives of the 12.5 million individuals who call the state home. Operating through a system of checks and balances, Pennsylvania's government consists of three branches. The Senate and the House of Representatives make up the legislative branch. The executive branch consists of the Governor, Auditor General, State Treasurer, and the Attorney General. The Supreme Court, Superior Court, Commonwealth Court, and other courts compose the judicial branch. The following organization charts identify specific Commonwealth officials and staff within Comptroller Operations, at June 30, 2007:

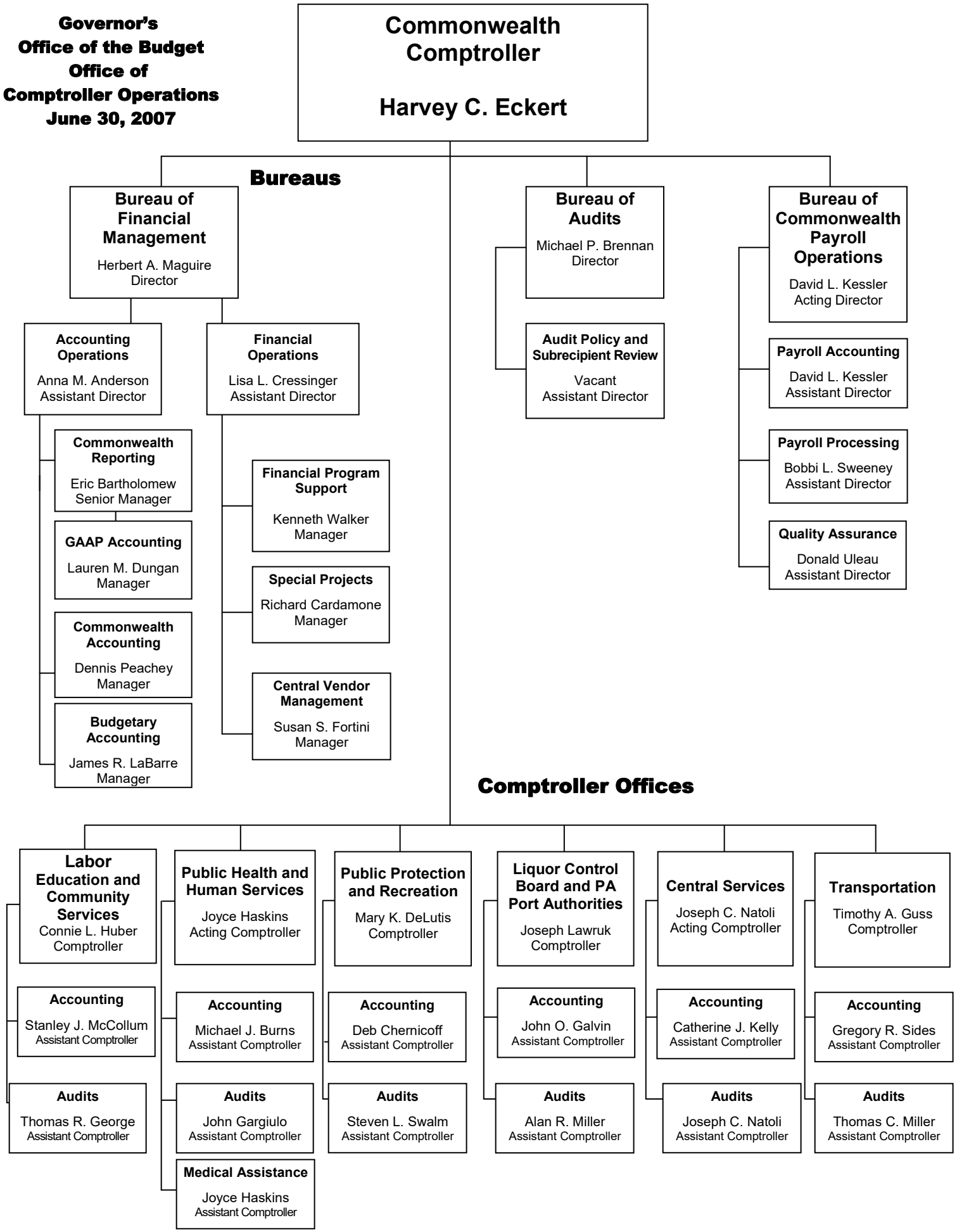
COMMONWEALTH OF PENNSYLVANIA
ORGANIZATION AND OFFICIALS CHART
June 30, 2007



* Independently Elected

** Nominated by Governor;
Confirmed by Senate

Governor's Office of the Budget Office of Comptroller Operations June 30, 2007



THE GENERAL FUND
BUDGETARY BASIS

The General Fund, the Commonwealth's largest operating fund, may be used to assess Pennsylvania's financial position and activities for the fiscal year ended June 30, 2007. It accounts for all revenues and other receipts that are not required by law to be accounted for or deposited in other special funds, and reflects a significant portion of Commonwealth expenditures. Tax revenues, principally personal and corporate income, and sales and use taxes, constitute approximately 88.8 percent of the non-federal General Fund budgetary basis revenues. General Fund expenditures are reported in the following functional assignments, along with the related percentage of non-federal expenditures: direction and supportive services (3.52), protection of persons and property (11.89), health and human services (38.40), public education (37.66), recreation and cultural enrichment (1.14), economic development (3.02), transportation (1.42) and transfers to debt service funds (2.95) for all obligations except those incurred for highway or other special revenue fund purposes.

BUDGET ADOPTION AND LEGAL COMPLIANCE
BUDGETARY COMPARISON SCHEDULE

A discussion of the Commonwealth's annual budget process is included as Required Supplementary Information (RSI) immediately following the Notes to the Financial Statements. The legally adopted budget provides statutory control over spending. Under Commonwealth law, expenditures cannot exceed amounts appropriated. Budgetary control is exercised by specific, line-item appropriation. The Budgetary Comparison Schedule, included as RSI, provides original budget, final budget and actual budgetary results for the fiscal year ended June 30, 2007.

BUDGETARY BASIS FUND BALANCE INCREASE/(DECREASE)
FIVE MOST RECENT FISCAL YEARS

The following table shows the General Fund's year end unreserved/undesignated fund balance and increases or decreases on a budgetary basis at the end of the five most recent fiscal years (amounts in millions):

General Fund At June 30	Unreserved/ Undesignated Fund Balance	Budgetary Basis Increase (Decrease)
2003 (restated)	$ 196.2	$ 53.7
2004 (restated)	77.5	(118.7)
2005	364.8	287.3
2006 (restated)	522.2	157.4
2007	530.9	8.7

During the fiscal year ended June 30, 2007, total General Fund revenues and other sources exceeded expenditures and other uses by $8.7 and, at June 30, 2007, the Commonwealth reported an unreserved/undesignated fund balance (budgetary basis) of $530.9 in the General Fund. This compares to a budgetary basis fund balance of $522.2 (restated) at June 30, 2006. The budgetary basis results for the fiscal year ended June 30, 2007 include revenue collections totaling $44,797.5, less appropriation authorizations totaling $44,696.3, less other net financing uses totaling $92.5. Included in the $44,696.3 appropriation authorizations are $197.1 of state supplemental appropriations and $94 in Federal supplemental appropriations authorized during the fiscal year ended June 30, 2007 (amounts in millions).

ECONOMIC OUTLOOK

The national economy slowed dramatically during the first quarter of 2007, 0.6 percent growth in gross domestic product (GDP), before rebounding during the second quarter to 4.0 percent growth in GDP. This rapid turnaround supported continued gains in employment both nationally and within the Pennsylvania economy. Improvements in personal income, government finances, and jobs growth were recorded during the recently completed fiscal year. Overall, growth in the national economy averaged 2.5 percent during fiscal year 2006-07.

From mid-2007 to mid-2008, growth in the national economy, as measured by GDP, is expected to average 2.4 percent, below recent performances. Continued weakness in the housing market will likely lead to slower growth in the economy. Significant increases in oil prices will negatively impact the economy and likely reduce consumer expenditures. More cautious consumer spending and weakened foreign trade will adversely impact the national and Pennsylvania economies in during fiscal year 2008.

LONG-TERM FINANCIAL PLANNING

Based on the Governor's Executive Budget for 2007-2008, issued in February 2007, during each of the five fiscal years ending June 30, 2012, the Commonwealth expects to receive General Fund revenues between $28 billion and $32 billion along with similar, but lower, expenditures. During the same five fiscal years, it is estimated surpluses ranging from $3.8 million to $87 million, after General Fund transfers to the Budget Stabilization Reserve Fund (expected to be between $1 million and $29 million for each of the five years.) For all Funds included in the Executive Budget, total revenues and available balances carried forward of between $60 billion and $65 billion are expected, along with corresponding but lower expenditures. The next Executive Budget is expected to be available in February 2008 and includes planned revenues and expenditures for five fiscal years, through the fiscal year ending June 30, 2013.

RISK MANAGEMENT

The Commonwealth maintains ongoing training and information programs to reduce risks associated with employee injury and negligence, contract compliance, tort liabilities and property losses. As more fully described in Note M to the financial statements, the Commonwealth became self-insured for employee disability and medical claims on July 1, 1983. The Commonwealth is also self-insured for annuitant medical/hospital benefits and tort liabilities, including automobile, employee and transportation-related claims. Reserves have been established to fund self-insured claims. First-party coverage is obtained for property losses in excess of $1 million per occurrence, to a limit of $250 million ($350 million, as of September 19, 2007) per occurrence. Coverage for property losses less than $1 million or in excess of $250 million ($350 million, as of September 19, 2007) is maintained through the Commonwealth's self-insurance program.

INDEPENDENT AUDIT

The Commonwealth's June 30, 2007 Basic Financial Statements have been jointly audited by the Department of the Auditor General and Ernst & Young LLP, an independent public accounting firm. The independent auditors' opinion is included in the beginning of the Financial Section of this CAFR. The auditors' opinion provides a reasonable basis for users to rely on the information included in the BFS.

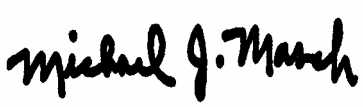
CERTIFICATE OF ACHIEVEMENT

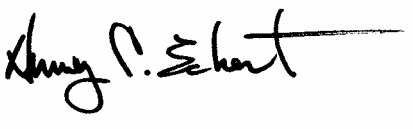
The CAFR will be submitted to the Government Finance Officers Association of the United States and Canada (GFOA) to determine its eligibility for the GFOA's Certificate of Achievement for Excellence in Financial Reporting. The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Pennsylvania for its Comprehensive Annual Financial Report as of and for the fiscal year ended June 30, 2006. This represents the twenty-first consecutive year the Commonwealth of Pennsylvania has received this award.

To merit a certificate of achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, which conforms to GFOA standards and satisfies both generally accepted accounting principles and applicable legal requirements. A certificate of achievement is valid for a period of one year only. We believe the Comprehensive Annual Financial Report of the Commonwealth of Pennsylvania as of and for the fiscal year ended June 30, 2007 conforms to the GFOA's award criteria.

ACKNOWLEDGMENTS

We wish to express our appreciation to the staff of the various Commonwealth agencies whose time and dedicated effort made this report possible and, at the same time, to reaffirm our commitment to you to maintain the highest standards of accountability in financial reporting to the citizens of the Commonwealth.





Michael J. Masch
Secretary
Office of the Budget

Harvey C. Eckert
Commonwealth Comptroller
Office of the Budget

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Pennsylvania

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Clare S. Cox
President

Jeffrey L. Esser
Executive Director

Financial Section

National Constitution Center, Independence National Historic Park

Philadelphia

Department of the Auditor General
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania 17120-0018

ERNST & YOUNG LLP

Two Commerce Square
Suite 4000
2001 Market Street
Philadelphia, Pennsylvania
19103-7096

Report of Independent Auditors

The Honorable Edward G. Rendell, Governor
Commonwealth of Pennsylvania
Harrisburg, Pennsylvania

We have jointly audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania (the Commonwealth), as of and for the year ended June 30, 2007, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not jointly audit the financial statements of the Tobacco Settlement Fund, a major Special Revenue Fund, the Tuition Payment Fund, a major Enterprise Fund, and certain component units, which represent 99 percent of total assets, 99 percent of total net assets and 99 percent of total revenues of the aggregate discretely presented component units, and certain agencies, which represent 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities. We also did not jointly audit 100 percent of the total assets, 100 percent of total net assets and 100 percent of the total revenues of the Pension (and Other Employee Benefit) and Private Purpose Trust Funds. This comprises 91 percent of total assets, 96 percent of total net assets and 87 percent of total revenues of the aggregate remaining fund information. The financial statements of the Tobacco Settlement Fund, Tuition Payment Fund, and these component units, agencies, and Pension (and Other Employee Benefit) and Private Purpose Trust Funds were audited by other auditors, including Ernst & Young LLP acting separately, whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the Tobacco Settlement Fund, Tuition Payment Fund, and those component units, agencies, and the Pension (and Other Employee Benefit) and Private Purpose Trust Funds, are based solely on the reports of the other auditors. Ernst & Young LLP has audited, separately, 100 percent of the Tuition Payment Fund, 16 percent of total assets, 28 percent of total net assets and 16 percent of total operating revenues of the discretely presented component units, as well as 2 percent of expenditures of the General Fund and 1 percent of expenses of Governmental Activities.

The transactions of the Department of the Auditor General are included in the basic financial statements and are immaterial to the overall presentation of the basic financial statements. The expenses of the Department of the Auditor General equal less than 1 percent of the expenses reported for Governmental Activities on the Statement of Activities and less than 1 percent of the expenditures reported for the General Fund on the Statement of Revenues, Expenditures and Changes in Fund Balance. Agency Fund assets and liabilities of the Department of the Auditor General equal less than 1 percent and less than 2 percent, respectively, of the total assets and liabilities reported for the aggregate remaining fund information. The Auditor General is the Commonwealth's independently-elected auditing officer. Article VIII, § 7, of the Pennsylvania Constitution mandates the Auditor General to act jointly with the Governor and State Treasurer to vote on the incurrence of debt. Title 72 of the Pennsylvania Statutes, § 1102, mandates the Department of the Auditor General to approve the disposition of petitions for corporate tax resettlements filed with the Pennsylvania Department of Revenue's Board of Appeals, which may be appealed to the Board of Finance and Revenue. Title 71 of the Pennsylvania Statutes, § 115, mandates the Auditor General to be one of the six members of the Board of Finance and Revenue, which is an independent board whose decisions may be appealed to Commonwealth Court. The above-mandated responsibilities are performed by personnel separate from those involved in the performance of the audit of the Commonwealth's basic financial statements, and are being disclosed as required by and in accordance with auditing standards generally accepted in the United States.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Commonwealth's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commonwealth's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Pennsylvania as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with United States generally accepted accounting principles.

Management's discussion and analysis and budgetary comparison information on pages 16 through 36 and 128 through 132 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Pennsylvania's basic financial statements. The introductory section, combining non-major fund and component unit financial statements, budgetary comparison schedules for budgeted non-major funds, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major fund and component unit financial statements and budgetary comparison schedules for budgeted non-major funds have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Ernst & Young LLP

December 11, 2007

Management's Discussion and Analysis

Pocono Raceway, Long Pond

Monroe County

The Management's Discussion and Analysis (MD&A) of the Commonwealth of Pennsylvania's Comprehensive Annual Financial Report (CAFR) is presented as Required Supplementary Information and provides a review and analysis of the Commonwealth's financial statements for the fiscal year ended June 30, 2007 and a comparison to the prior fiscal year. The MD&A should be reviewed in conjunction with the Letter of Transmittal, which begins on page 4 of this report, and with the Commonwealth's financial statements, which follow.

Executive Summary

Government-wide Statements at-a-glance

Net Assets – Governmental activities net assets totaled $24.3 billion at June 30, 2007, compared to $22.6 billion at June 30, 2006. This represents a year over year increase in net assets of $1.7 billion, following a prior year increase in net assets of $1.8 billion. For business-type activities, net assets were $3.6 billion at June 30, 2007, an increase of $0.3 billion compared to $3.3 billion at June 30, 2006. This represents a year over year increase in Total Net Assets of $2.0 billion for the primary government.

General Obligation Bonds – During the fiscal year, total general obligation bond indebtedness increased by $.6 billion ($1.4 billion issued and $.8 billion repaid) from $7.6 billion to $8.2 billion, while total governmental activities liabilities increased by $1.0 billion.

Fund Statements at-a-glance

Governmental Funds – Fund Balances – Were $8.526 billion at June 30, 2007 compared to $7.650 billion at June 30, 2006, for a year-over-year increase of $.876 billion.

General Fund – Fund Balance – Was $3.371 billion at June 30, 2007, compared to $2.970 billion at June 30, 2006, for a year over year increase of $.401 billion.

Overview and discussion of basic financial statements

The Financial Section of the CAFR consists of several parts: the Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements (BFS), Required Supplementary Information, Combining Financial Statements, and Statistical Section. The BFS includes two sets of statements that present different views of the Commonwealth – the government-wide financial statements and the fund financial statements. The Notes to the Financial Statements present additional details and clarification regarding the information presented in these statements.

Government-wide financial statements

Government-wide financial statements portray the Commonwealth's overall financial position (Statement of Net Assets) at June 30, 2007 and its aggregate revenues and expenses (Statement of Activities) for the fiscal year ended June 30, 2007. The Statement of Net Assets presents the assets, liabilities, and net assets for the Commonwealth as a whole. The Statement of Activities presents, by function or program, the expenses, offsetting revenues, and changes in net assets. Both statements classify amounts by Governmental Activities, Business-Type Activities, and Component Units. The component units are organizations that are legally separate from the Commonwealth's primary government. Information related to component units is not included in the MD&A. Each component unit is identified and described in Note A – Summary of Significant Accounting Policies. Audited financial statements for component units are available through the Commonwealth Comptroller.

The government-wide financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basis of accounting is similar to the basis used by most business entities and recognizes revenues and expenses when they occur, regardless of when related cash was received or paid.

Fund financial statements – governmental funds

Funds are groups of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commonwealth uses fund accounting to demonstrate compliance with finance related legal requirements. The Commonwealth's funds are categorized as governmental funds, proprietary funds or fiduciary funds. Further discussion of these fund categories can be found in Note A – Summary of Significant Accounting Policies. Fund financial statements differ from government-wide financial statements in a few ways:

1) While the government-wide statements focus on the government taken as a whole, the fund statements reveal more detailed, fund-specific information for major governmental and proprietary funds, and for aggregated, non-major fund information.

2) Unlike the aggregated columns for governmental and business-type activities in government-wide statements, the fund statements report individual funds which are established by state law and used to account for specific, mandated activities. Two examples of specific funds are the Motor License Fund, a special revenue fund where gasoline taxes and motor vehicle registration fees are collected and used to repair and build highways, and the Unemployment Compensation Fund, an enterprise fund, used to collect amounts from employers to pay for unemployment compensation to workers.

3) The government-wide statements use the full accrual basis of accounting. In the funds statements, governmental funds use the modified accrual basis of accounting and current financial resources measurement focus; whereas the proprietary funds and fiduciary funds use the accrual basis of accounting and economic resources focus.

Government–wide financial analysis

The following presents condensed financial statement information from the Statement of Net Assets (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Assets:									
Cash and investments	$ 12.6	$ 11.1	$ 1.5	$ 7.0	$ 6.2	$ 0.8	$ 19.6	$ 17.3	$ 2.3
Capital assets (net)	23.9	22.8	1.1	0.1	-	0.1	24.0	22.8	1.2
All other assets	6.2	6.1	0.1	1.3	1.4	(0.1)	7.5	7.5	-
Total assets	**42.7**	**40.0**	**2.7**	**8.4**	**7.6**	**0.8**	**51.1**	**47.6**	**3.5**
Liabilities:									
Accounts payable	4.5	4.1	0.4	0.6	0.5	0.1	5.1	4.6	0.5
All other current liabilities	4.3	4.0	0.3	1.5	1.4	0.1	5.8	5.4	0.4
Total current liabilities	**8.8**	**8.1**	**0.7**	**2.1**	**1.9**	**0.2**	**10.9**	**10.0**	**0.9**
Bonds payable	7.7	7.1	0.6	-	-	-	7.7	7.1	0.6
All other long-term liabilities	1.9	2.2	(0.3)	2.7	2.4	0.3	4.6	4.6	-
Total long-term liabilities	**9.6**	**9.3**	**0.3**	**2.7**	**2.4**	**0.3**	**12.3**	**11.7**	**0.6**
Total Liabilities	**18.4**	**17.4**	**1.0**	**4.8**	**4.3**	**0.5**	**23.2**	**21.7**	**1.5**
Net assets:									
Invested in capital assets, net of related debt	20.0	19.1	0.9	0.1	-	0.1	20.1	19.1	1.0
Restricted	4.0	3.9	0.1	3.5	3.3	0.2	7.5	7.2	0.3
Unrestricted (deficit)	0.3	(0.4)	0.7	-	-	-	0.3	(0.4)	0.7
Total net assets	**$ 24.3**	**$ 22.6**	**$ 1.7**	**$ 3.6**	**$ 3.3**	**$ 0.3**	**$ 27.9**	**$ 25.9**	**$ 2.0**

Changes in assets and liabilities

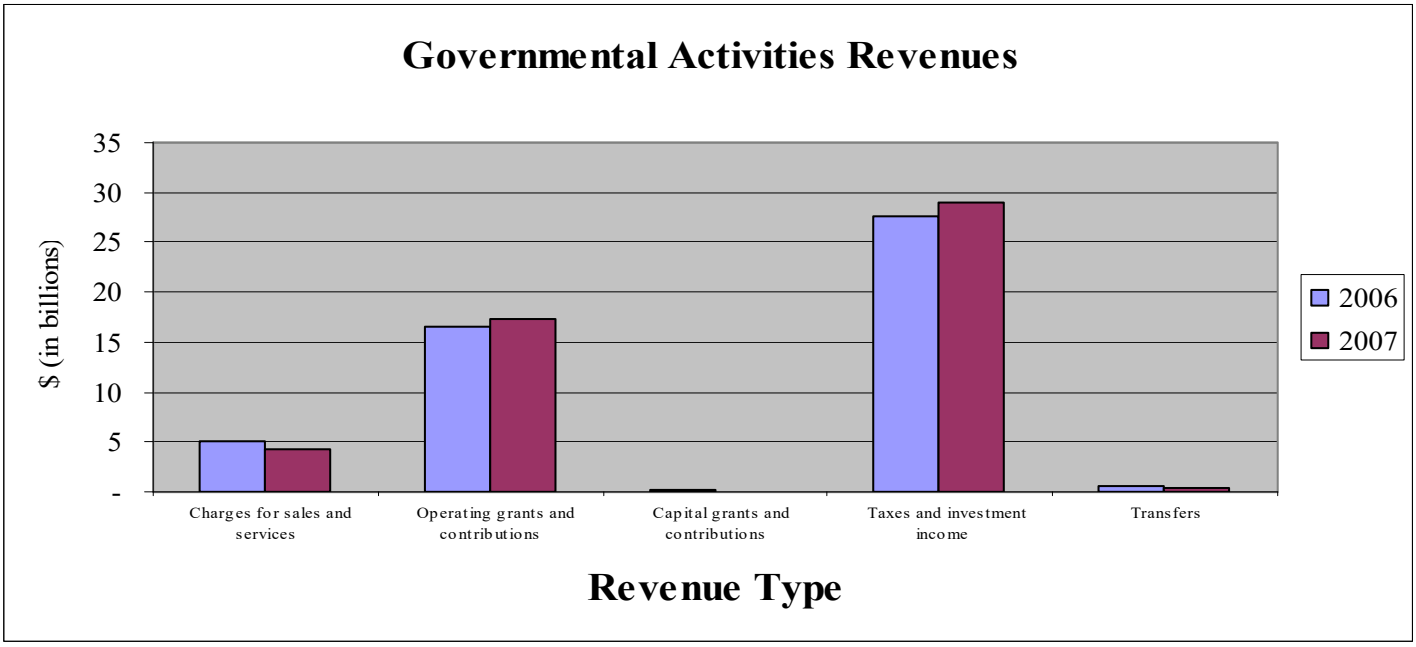
As of June 30, 2007, total governmental activities cash and investments increased by $1.5 billion, primarily as a result of increases in governmental activities tax revenues, caused by improving economic conditions during the fiscal year, and relatively smaller increases in governmental activities expenses. This cash and investments increase follows a $1.1 billion

increase for the prior year. The net capital assets increase of $1.1 billion follows a $0.9 billion increase in the prior year and reflects an expansion of, and improvements to, the Commonwealth's reported highway and bridge infrastructure, along with other capital assets. Governmental activities current liabilities accounts payable and accrued liabilities, increased by $.4 billion due to overall expense increases and the timing of voucher payment requests. Other governmental activities current liabilities increased by $0.3 billion, net, resulting primarily from 1) relatively larger Treasury securities lending program obligations ($0.13 billion); and 2) an increase in tax refunds payable ($.06 billion) as of June 30, 2007. General obligation bonds payable, non-current portion, increased by $0.55 billion over the prior year; roughly $1.32 billion were issued, and $.0761 billion was repaid during the fiscal year. Year over year changes in business-type activities assets and liabilities resulted in a net increase in net assets of $0.3 billion; total assets increased by $0.8 billion and total liabilities increased by $0.5 billion. Total assets increased primarily as a result of increases in investments reported by the Unemployment Compensation Fund, the State Workers' Insurance Fund, the State Lottery Fund and the Tuition Payment Fund. Among these four Funds, the Unemployment Compensation Fund reported an increase in net assets of over $0.2 billion.

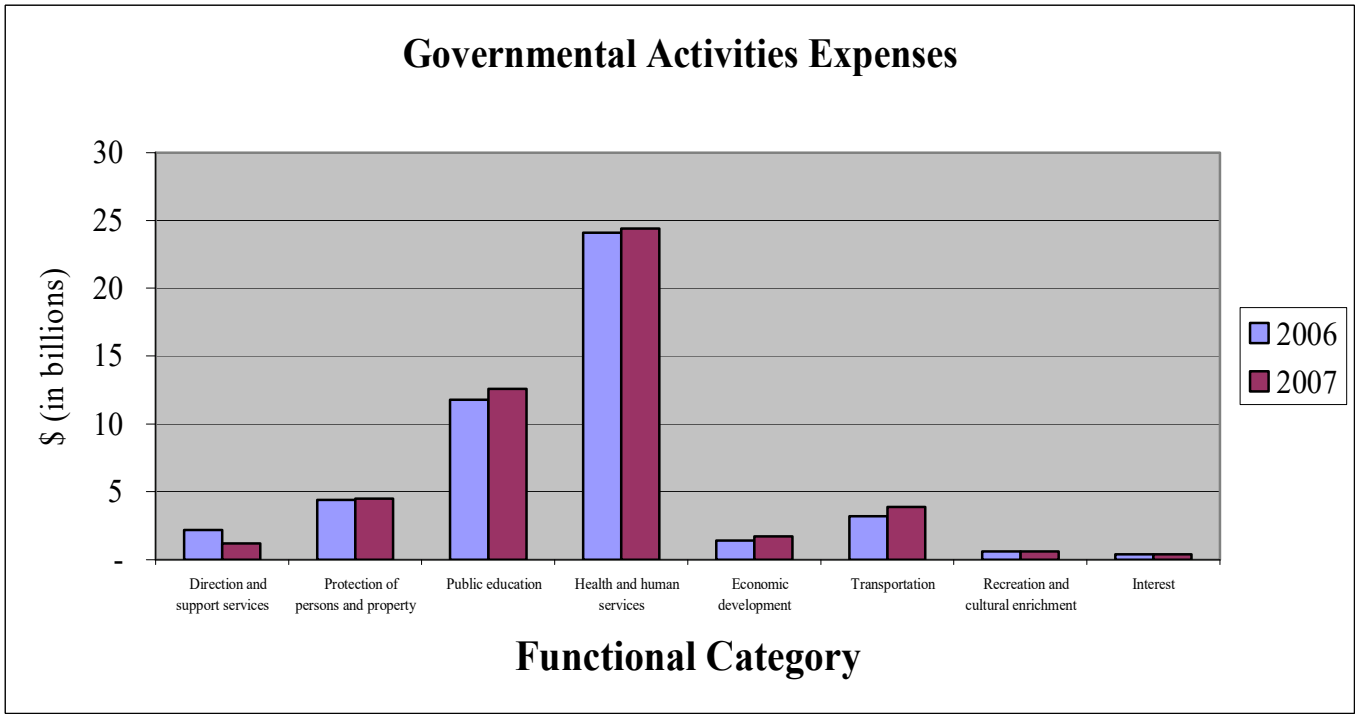
The following presents condensed, financial statement information from the Statement of Activities (amounts in billions):

	Governmental Activities			Business-Type Activities			Total		
	2007	**2006**	**Change**	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Revenues:									
Program revenues:									
Charges for sales and services	$ 4.3	$ 5.1	$ (0.8)	$ 7.3	$ 7.2	$ 0.1	$ 11.6	$ 12.3	$ (0.7)
Operating grants and contributions	17.3	16.5	0.8	0.6	0.4	0.2	17.9	16.9	1.0
Capital grants and contributions	-	0.1	(0.1)	-	-	-	-	0.1	(0.1)
Total program revenues	**21.6**	**21.7**	**(0.1)**	**7.9**	**7.6**	**0.3**	**29.5**	**29.3**	**0.2**
General revenues:									
Taxes and investment income	29.0	27.7	1.3	-	-	-	29.0	27.7	1.3
Total general revenues	**29.0**	**27.7**	**1.3**	**-**	**-**	**-**	**29.0**	**27.7**	**1.3**
Total revenues	**50.6**	**49.4**	**1.2**	**7.9**	**7.6**	**0.3**	**58.5**	**57.0**	**1.5**
Expenses:									
Governmental activities:									
Direction and supportive services	1.2	2.2	(1.0)	-	-	-	1.2	2.2	(1.0)
Protection of persons and property	4.5	4.4	0.1	-	-	-	4.5	4.4	0.1
Public education	12.6	11.8	0.8	-	-	-	12.6	11.8	0.8
Health and human services	24.4	24.1	0.3	-	-	-	24.4	24.1	0.3
Economic development	1.7	1.4	0.3	-	-	-	1.7	1.4	0.3
Transportation	3.9	3.2	0.7	-	-	-	3.9	3.2	0.7
Recreation and cultural enrichment	0.6	0.6	-	-	-	-	0.6	0.6	-
Interest	0.3	0.4	(0.1)	-	-	-	0.3	0.4	(0.1)
Business-type activities:									
State lottery	-	-	-	3.0	2.7	0.3	3.0	2.7	0.3
Unemployment compensation	-	-	-	2.1	2.0	0.1	2.1	2.0	0.1
Liquor control	-	-	-	1.3	1.2	0.1	1.3	1.2	0.1
Workers' compensation	-	-	-	0.6	0.4	0.2	0.6	0.4	0.2
Tuition payment	-	-	-	0.3	0.1	0.2	0.3	0.1	0.2
Total expenses	**49.2**	**48.1**	**1.1**	**7.3**	**6.4**	**0.9**	**56.5**	**54.5**	**2.0**
Excess/(deficiency) before transfers	1.4	1.3	0.1	0.6	1.2	(0.6)	2.0	2.5	(0.5)
Transfers	0.3	0.5	(0.2)	(0.3)	(0.5)	0.2	-	-	-
Increase (decrease) in net assets	1.7	1.8	$ (0.1)	0.3	0.7	$(0.4)	2.0	2.5	$ (0.5)
Net assets, beginning	22.6	20.8		3.3	2.6		25.9	23.4	
Net assets, ending	**$ 24.3**	**$ 22.6**		**$ 3.6**	**$ 3.3**		**$ 27.9**	**$ 25.9**	

The following chart provides a year-over-year comparison of governmental activities revenues:



Below is a chart comparing governmental activities expenses by fiscal year:



Overall changes in net assets

During the fiscal year ended June 30, 2007, the overall financial position (net assets) of the Commonwealth, including both governmental and business-type activities, increased by $2.0 billion, or 7.7 percent of total beginning net assets of $25.9 billion. For governmental activities, the net increase in net assets was $1.8 billion or nearly 8.0 percent of beginning net assets of $22.6 billion. Total investments, excluding the State Employees' Retirement Fund and all other fiduciary funds, totaled over $17.6 billion and total cash balances were over $1.9 billion. These amounts represent considerable financial resources for the current and future fiscal years. The increase in governmental activities net assets ($1.7 billion) almost equaled the prior year change, where revenues, transfers and special items also exceeded expenses by $1.8 billion. These increases represent significant year-over-year improvements in the Commonwealth's overall financial position, respectively, during the fiscal years ended June 30, 2007 and 2006.

The $.3 billion increase in total net assets for business-type activities follows a $.7 billion increase during the prior fiscal year. The $.4 billion year over year decrease is primarily attributable to a net assets increase of $0.2 billion in the unemployment compensation program, where the prior year net assets increase was over $0.5 billion. During the current fiscal year, unemployment compensation revenues decreased while expenses increased; in the prior year revenues increased and expenses decreased by a large amount. Statutory contribution decreases occurred during the current fiscal year, while increases occurred during the prior year. (Such prior year increases are intended to eliminate or avoid net assets decreases in the unemployment compensation program.) During the fiscal year ended June 30, 2007, combined decreases in net assets of the State Workers' Insurance Fund and the State Lottery Fund ($103 million) more than offset an increase in net assets of the Tuition Payment Fund ($52 million), after net transfers to other Funds.

Changes in revenues and expenses

For governmental activities, general revenues increased by $1.3 billion, largely as a result of significant increases in General Fund tax revenues during the fiscal year ended June 30, 2007. Such increases were the result of improving overall economic conditions in the Commonwealth; the largest of such increases was in personal income taxes. Program revenues for charges for sales and services decreased $.8 billion because of 1) a reported decrease in revenues of $1.4 billion related to cash receipts and disbursements related to Commonwealth employee benefit costs which are charged to Commonwealth agencies on a biweekly basis. (Such cash receipts and disbursements were formerly reported on a 'gross' basis and reported as part of General Fund revenues (Charges for sales and services) and expenditures (Direction and supportive services)) and 2) a reported net increase of $.6 billion, consisting primarily of new Gaming Fund revenues ($.32 billion) and escheated property ($.29 billion). Operating grants and contributions, which includes Federal participation in specific General Fund and other programs, increased by $.8 billion during the fiscal year. Federal revenues in General Fund programs increased $.5 billion, while Federal revenues in Motor License Fund programs were nearly flat. Investment income, also reported as part of operating grants and contributions, increased by $.34 billion during the current fiscal year. Program charges for business-type activities increased by $.1 billion, net, primarily because of increases in alcoholic beverage sales ($.09 billion), lottery sales ($.03 billion), tuition payment credit sales ($.04 billion) and other programs, offset by decreases in unemployment compensation revenues ($.2 billion), and state workers insurance program revenues ($.05 billion). Operating grants and contributions for business-type activities increased by $.2 billion largely due to increases in investment income (over $.16 billion); Federal participation revenues were only slightly higher than the prior year.

For governmental activities, total expenses increased $1.1 billion (less than 2.3 percent) largely because of significant increases in expenses for public education ($.8 billion), and transportation ($.7 billion). There were less significant increases in reported expenses for direction and supportive services ($.4 billion, before the effects of the above-mentioned $1.4 billion reporting change), health and human services ($.3 billion) and economic development ($.3 billion).

During the current fiscal year, total business-type activities revenues exceeded total expenses by $0.6 billion; in the prior fiscal year, total revenues were $1.2 billion higher than expenses. Including the effects of net transfers to other funds of $.3 billion ($.5 billion in the prior year), business-type activities net assets increased by $.3 billion versus a $.7 billion increase in the prior year. The primary reason for this increase was a $.2 billion improvement in Unemployment Compensation Fund net assets. Current-year Fund revenues decreased $257 million but expenses increased by $76 million; this follows a net increase in net assets of $.5 billion during the prior fiscal year.

Overall, expenses for business-type activities increased by $.9 billion, a 14 percent increase over the prior fiscal year. Expenses for different programs increased as follows: state lottery ($.4 billion), workers' compensation ($.14 billion), tuition payment (almost $.13 billion) and unemployment compensation (over $.07 billion) during the current fiscal year. Net expenses for other programs increased almost $.1 billion.

General Fund – economic factors during the fiscal year ended June 30, 2007

Continued weakness in the housing sector and escalating oil prices were two of the main factors that resulted in slower growth of the national economy during fiscal year 2006-07. Growth in real gross domestic product (GDP) finished at 2.5 percent for the fiscal year ended June 30, 2007, down from 3.4 percent for the prior fiscal year. Corporate profits, growth in wages and salaries and consumer expenditures were all lower during fiscal year 2006-07 than in the prior fiscal year. Economic growth proved erratic as said growth was 0.4 percent in the first quarter of 2007 but rebounded to reach 4.0 percent in the second quarter of 2007. Job growth continued during the fiscal year and the unemployment rate continued to drop throughout the fiscal year. Overall, economic conditions positively impacted state revenue growth, as revenues exceeded the budget estimate. These additional revenues were used in part to replenish portions of reserve funds and to support an increased demand for governmental goods and services, particularly in the area of health care costs.

Budgetary Comparison

Budgetary Comparison Schedules are included as required supplementary information for the General Fund and the Motor License Fund immediately following the Notes to the Financial Statements. Budgetary comparison schedules for nonmajor Special Revenue Funds are included as supplementary information following combining statements for Special Revenue Funds. These schedules provide a measurement of compliance with legally adopted budgets.

General Fund – budgetary basis – comparison between original budget and final budget

The Budgetary Comparison Schedule for the General Fund for the fiscal year ended June 30, 2007 is presented immediately following the Notes to the Financial Statements. In the Final Budget, State Program revenues were adjusted to include revenues received by fiscal year-end (but not included in the Commonwealth's official revenue estimate), in an amount equal to fiscal year 2006-07 supplemental appropriations passed on July 17, 2007 by Act 8A.

Final budgeted revenues for total state programs exceed the original budget by $469 million. This increase includes a net $204 million increase in tax revenues resulting from a $197 million adjustment for supplemental appropriations referred to in the preceding paragraph and a $50 million change in revenue refunds from original to final budget. The $469 million increase also includes a net increase of $222 million in departmental services revenue. This increase is attributable primarily to a $520 million decrease in the Department of Public Welfare's Health Care Provider Retention program where original budgeted revenues were not realized, and transfers of $418 million in augmenting revenues from the Motor License Fund for State Police protection of Commonwealth highways (in this case there is no true increase in funds available to the State Police).

The General Fund Schedule also discloses that the final budget includes $638 million more expenditures than the original budget. The $638 million increase includes $427 million in state program expenditure increases and $211 million of increased Federal participation in various programs. Of the $427 million net state program difference, a $498 million increase in Protection of Persons and Property expenditures results primarily from a $418 million increase in spending authority for State Police protection of Commonwealth highways. Further, a $66 million decrease in Public Education expenditures includes $72 million reported as estimated augmentations in the original budget for the Pennsylvania Higher Education Assistance Agency for which no actual augmentations were received. Also, supplemental appropriations increased by $20 million and Public Utility Realty Tax (PURTA) and the State Tax Equalization Board (STEB) were originally included as Original Budget amounts, but were later removed. The increase of $211 million in Federal programs relates primarily to additional appropriations and executive authorizations passed or authorized throughout the fiscal year.

General Fund – budgetary basis – comparison between final budgeted and actual results

Actual budgetary State Program revenues exceeded the final budgeted State Program revenues by $453 million. The $453 million net increase results primarily from improving national and state economic conditions which exceeded expectations and produced a $355 million increase in tax revenues and a $78 million increase in investment income. Budgetary lapses for a variety of specific appropriations and executive authorizations in the amount of $21 million were also posted to reduce State Program spending authority. Actual Federal revenues and corresponding expenditures were $178 million lower than budgeted for the following agencies: Executive Offices, $81 million; Public Welfare, $37 million; Health, $34 million; Education, $12 million; and all other affected agencies, $14 million.

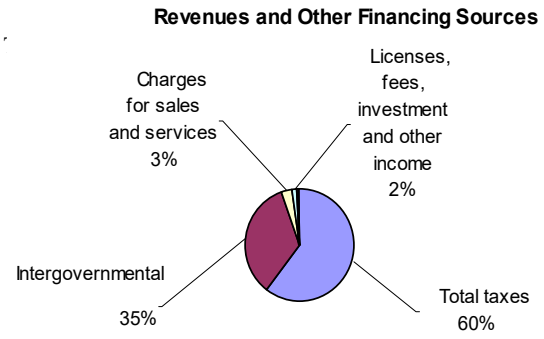
Measurement focus and basis of accounting – governmental funds

The General Fund, special revenue, debt service and capital projects funds are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, governmental funds recognize revenue in the year that it becomes susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. Grant revenues, including Federal government grant revenues, are recognized when earned. Revenue recognition from most other sources occurs at receipt. Recognition of expenditures generally occurs in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used.

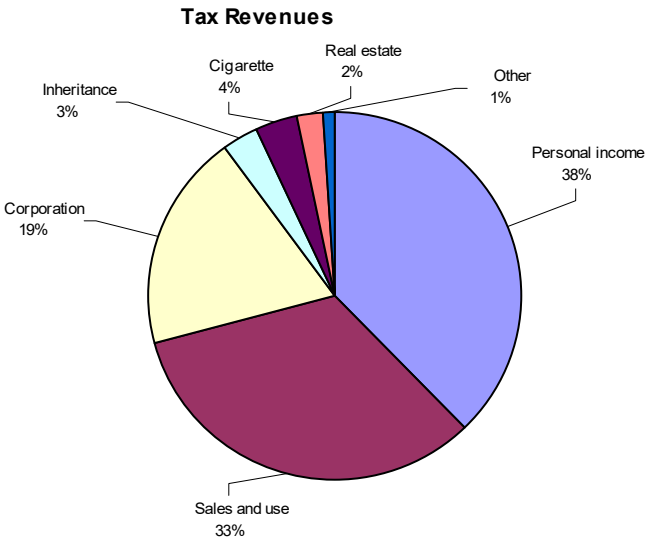
Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Discussion of individual funds, balances, and transactions

General Fund

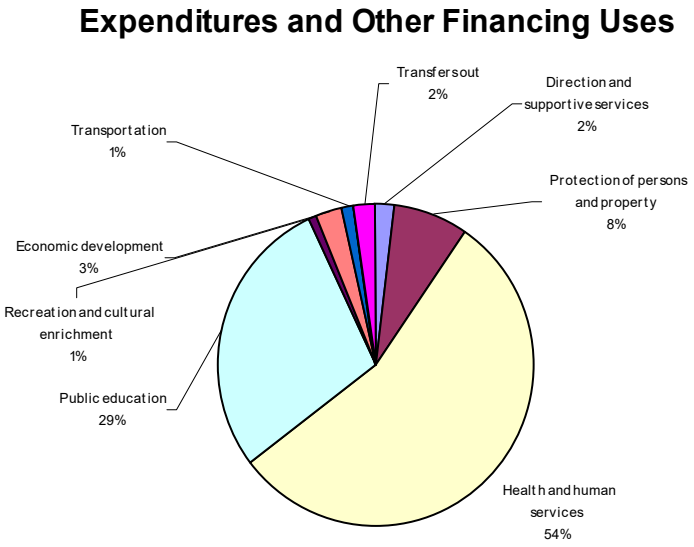

Revenues and Other Financing Sources
Licenses, fees, investment and other income 2%
Charges for sales and services 3%
Intergovernmental 35%
Total taxes 60%

The General Fund, the Commonwealth's largest fund, accounts for 82 percent of the total governmental fund type revenues and other financial sources and 82 percent of the total governmental fund type expenditures. The General Fund collects 91 percent of the total tax revenues and is the primary funding source for most Commonwealth agencies. The charts depicted on this page and the following page present a comparison of the major types of revenues and expenditures reported in the General Fund. Taxes and intergovernmental revenues represent the largest sources of revenue, while health and human services and education represent the largest outflows or expenditures (amounts in millions).



The largest significant source of tax revenue-net of refunds ($25,992) is Personal Income Tax (PIT). Reported PIT ($9,813) accounts for 38 percent of all taxes reported. Sales tax, which represents a tax on various items purchased by consumers**,** is the second largest category. Reported sales tax ($8,614) accounts for 33 percent of all taxes reported. Corporate income tax, which represents different taxes (including the Corporate Net Income Tax and the Capital Stock/Foreign Franchise Tax) on various corporations, is the third largest category. Reported corporate income tax ($4,976) accounts for 19 percent of all taxes reported. These three tax categories represent the Commonwealth's largest own-source revenues. Although not available for the current year, prior year statistical information for these three tax categories is presented in the Revenue Capacity portion of the Statistical Section (amounts in millions).

The General Fund reported a total of $43,350 in total expenditures ($42,308) and other financing uses ($946) during the fiscal year ended June 30, 2007. Expenditures for health and human services ($23,574) accounted for 54 percent of all General Fund expenditures and other financing uses. Of these health and human services expenditures, 95 percent ($22,443) were reported by the Department of Public Welfare. The second largest category, public education, accounts for 29 percent ($12,372) of the reported expenditures. Of the public education expenditures, 92 percent ($11,463) are reported by the Department of Education (amounts in millions). The following chart shows the percentages expended in each category:


Expenditures and Other Financing Uses
Transfers out 2%
Direction and supportive services 2%
Transportation 1%
Protection of persons and property 8%
Economic development 3%
Recreation and cultural enrichment 1%
Public education 29%
Health and human services 54%

Condensed comparative General Fund balance sheets at June 30, 2007 and 2006 are as follows (amounts in millions):

	2007	2006	Increase (Decrease) Change	Percent
Assets:				
Cash and investments	$ 6,072	$ 5,192	$ 880	17%
Receivables, net	3,511	3,419	92	3%
Due from other funds/governments/advances/other	1,579	1,789	(210)	-12%
Total assets	**$ 11,162**	**$ 10,400**	**$ 762**	**7%**
Liabilities:				
Accounts payable and tax refunds payable	$ 4,044	$ 3,787	$ 257	7%
Securities lending obligations	620	569	51	9%
Due to other funds/governments/advances/other	1,113	1,178	(65)	-6%
Unearned revenue	2,014	1,896	118	6%
Total liabilities	**7,791**	**7,430**	**361**	**5%**
Fund Balance:				
Reserved	2,078	1,460	618	42%
Unreserved:				
Designated	924	720	204	28%
Undesignated	369	790	(421)	-53%
Total fund balance	**3,371**	**2,970**	**401**	**14%**
Total liabilities and fund balance	**$ 11,162**	**$ 10,400**	**$ 762**	

During the fiscal year ended June 30, 2007, cash and investments increased by $880 million (17 percent) compared to the prior year. This increase is attributed to three factors: 1) total liabilities increased $361 million during the fiscal year, due to the timing of voucher payment requests involving ordinary vendors ($194 million); tax refunds increased ($63 million); and unearned revenue increased ($118 million) because of the higher deferral of the unavailable portion of modified accrual taxes receivable; 2) the timing of cash collections during the fiscal year caused total receivables to decrease by $118 million, net, and 3) aggregate revenues and other financing sources exceeded aggregate expenditures and other financing uses by $401 million.

Fund balance reservations increased $618 million primarily due to a $405 million increase in restricted revenues and a $367 million increase in the statutory Budget Stabilization Fund, which is reported as part of the General Fund. Offsetting these two increases was a $139 million decrease in amounts reserved for encumbrances. Fund balance designations increased $204 million, net, due primarily to changes in specific designations as follows: 1) increases: $128 million increase for Commonwealth employee health benefits and life insurance, $49 million for Public Welfare and medical assistance programs, $35 million for State Police statewide radio project, $25 million for job creation tax credits, $14 million for judicial computer system and, 2) offsetting decreases: $38 million for Corrections programs (which were new in the prior year) and $23 million for volunteer fire companies programs (which were new in the prior year). Overall fund balance increased by $401 million during the fiscal year ended June 30, 2007, and unreserved/undesignated fund balance decreased by $421 million, as a result of the aforementioned increases in fund balance reservations and designations exceeding the overall fund balance increase of $401 million.

Condensed, comparative, General Fund operating statements for the fiscal years ended June 30, 2007 and 2006 follow (amounts in millions):

	2007	2006	Increase (Decrease) Change	Percent
Revenues:				
Taxes, net of refunds				
Personal income	$ 9,813	$ 9,088	$ 725	8%
Sales and use	8,614	8,339	275	3%
Corporation	4,976	4,824	152	3%
Inheritance	768	724	44	6%
Cigarette	963	1,013	(50)	-5%
Real estate	565	557	8	1%
Other	293	238	55	23%
Total taxes, net of refunds	25,992	24,783	1,209	5%
Intergovernmental	15,161	14,663	498	3%
Charges for sales and services	1,335	2,751	(1,416)	-51%
Licenses/fees/investment and other income	814	515	299	58%
Total revenues	**43,302**	**42,712**	**590**	1%
Expenditures:				
Direction and supportive services	892	2,062	(1,170)	-57%
Protection of persons and property	3,336	3,279	57	2%
Health and human services	23,537	23,135	402	2%
Public education	12,373	11,667	706	6%
Recreation and cultural enrichment	353	298	55	18%
Economic development	1,204	957	247	26%
Transportation	435	443	(8)	-2%
Capital outlay	25	28	(3)	-11%
Other expenditures	3	5	(2)	-40%
Total expenditures	**42,158**	**41,874**	**284**	1%
Revenues over expenditures	**1,144**	**838**	**306**	37%
Other financing sources (uses):				
Transfers in	201	89	112	126%
Transfers out	(946)	(827)	(119)	14%
Capital lease and installment purchase obligations	2	1	1	100%
Net other financing uses	**(743)**	**(737)**	**(6)**	
Net change in fund balance	**401**	**101**	**$ 300**	
Fund balance, beginning	**2,970**	**2,869**		
Fund balance, ending	**$ 3,371**	**$ 2,970**		

General Fund tax revenues increased overall by 5 percent during the fiscal year ended June 30, 2007. Although most of the overall increase is attributable to economic growth, increases/decreases within several specific tax types were larger or smaller. Personal income tax (PIT) revenues rose by 8 percent - most of this growth occurred in estimated PIT tax types, that is, non-employer-withheld PIT. This growth can be attributed to strong capital gains that caused regular, quarterly PIT payments in April 2007 being 19.5 percent over April 2006. Overall corporation tax revenues increased by 3 percent due to strong corporate profit growth and both telecommunications and electric company gross receipts tax revenues that were higher than the prior year. However, these increases were offset by a scheduled decline in Capital Stock/Foreign Franchise Tax revenues due to the continuance of the capital stock and foreign franchise tax phase-out. Finally, cigarette tax revenues decreased by 5 percent due to a decline in consumption.

Charges for sales and services decreased by $1.416 billion due almost exclusively to a $1.411 billion decrease related to the reporting of cash receipts and disbursements related to Commonwealth employee benefit costs which are charged to Commonwealth agencies on a biweekly basis. Such cash receipts and disbursements were formerly reported on a 'gross' basis and reported as part of General Fund revenues (Charges for sales and services) and expenditures (Direction and supportive services. Intergovernmental revenues increased by $498 million, net, resulting primarily from certain newer Federal programs and higher amounts accrued for certain Federal programs. Total General Fund revenues increased by $590 million (1.36 percent) during the fiscal year.

Total General Fund expenditures increased by less than 1 percent during the fiscal year ended June 30, 2007, by $284 million. Reported expenditures for direction and supportive services decreased by $1,170 million, net, due primarily to 1) a $1,378 million decrease related to the reporting of cash receipts and disbursements related to Commonwealth employee benefit costs which are charged to Commonwealth agencies on a biweekly basis. Such cash receipts and disbursements were formerly reported on a 'gross' basis and reported as part of General Fund revenues (Charges for sales and services) and expenditures (Direction and supportive services) and 2) on a net basis, other increases of $208 million, including a higher expenditure posting ($107 million) associated with intra-fund expenditure/transfer eliminations, higher Revenue Department ($19 million) collection and enforcement efforts (including new expenditures for Gaming compliance) and higher interest payments on tax refunds/credits, and higher General Services Department ($14 million) expenditures for structural repair/maintenance. Public education expenditures increased by $706 million due primarily to increases in basic education ($294 million), school employee retirement ($114 million) and several other subsidies to school districts ($298 million), including newer state-funded programs; net changes in higher education subsidies were not significant. Health and human services expenditures increased by $402 million, caused by a higher aggregate need for child protection and development services, medical services, and income or cash grant assistance. Overall, Federal funding of health and human services declined by $187 million and state funding increased by $589 million during the fiscal year. Expenditures for economic development increased by $247 million primarily because of 1) much higher budgetary control waivers ($98 million), new programs ($30 million), higher grant awards ($10 million) and higher amounts appropriated ($6 million) for the Community and Economic Development Department and 2) higher Labor and Industry Department expenditures for modernization and training programs ($85 million).

Actual, final General Fund expenditures (budgetary basis) increased by 3.1 percent over the prior fiscal year, while revenues (budgetary basis) increased 2.8 percent.

Reported Transfers to the General Fund increased by $112 million primarily because of 1) a $70 million increase in the State Stores Fund profits transfer, 2) a new $25 million transfer from the State Gaming Fund, and 3) a new $17.5 million transfer from the Manufacturing Fund. Reported Transfers from the General Fund increased by $119 million, net, mainly because of 1) a $136 million increase to debt service funds, and 2) offsetting that increase, no current year transfer to Emergency Energy Assistance, which was over $19 million in the prior year.

The overall increase in fund balance, $401 million, during the fiscal year was $300 million more than the prior fiscal year increase in fund balance $101 million.

Motor License Fund

Condensed, comparative, financial statement information for the Motor License Fund is as follows (amounts in millions):

	2007		2006	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and investments	$ 1,854	82%	$ 1,884	$ (30)	-2%
Other assets	396	18%	413	(17)	-4%
Total assets	**$ 2,250**	**100%**	**$ 2,297**	**$ (47)**	**-2%**
Accounts payable	$ 525	63%	$ 434	$ 91	21%
Securities lending obligations	207	25%	213	(6)	-3%
Other liabilities	99	12%	101	(2)	-2%
Total liabilities	**831**	**100%**	**748**	**83**	**11%**
Total fund balance	**1,419**	**100%**	**1,549**	**(130)**	**-8%**
Total liabilities and fund balance	**$ 2,250**	**100%**	**$ 2,297**	**$ (47)**	**-2%**
Tax revenues	$ 2,072	45%	$ 2,033	$ 39	2%
License and fees	879	19%	900	(21)	-2%
Federal revenues	1,448	31%	1,413	35	2%
Other revenues	250	5%	186	64	34%
Total revenues	**4,649**	**100%**	**4,532**	**117**	**3%**
Direction and supportive services	67	1%	52	15	29%
Protection of persons and property	667	14%	554	113	20%
Transportation	2,327	49%	1,679	648	39%
Capital outlay	1,672	35%	1,925	(253)	-13%
Other expenditures	1		1	-	
Total expenditures	**4,734**	**100%**	**4,211**	**523**	**12%**
Net transfers out	(45)	100%	(49)	4	-8%
Net change in fund balances	**$ (130)**		**$ 272**	**$ (402)**	

Overall, total revenues increased by $117 million during the fiscal year ended June 30, 2007; this represents a 3 percent increase over last fiscal year. The most significant factor in the increase was a $47 million increase in investment income (Other revenues). The next largest factor was higher tax revenues ($39 million). This represents a combination of decreased consumption in the current year ($10.9 million less revenue) netted against the increase in the average wholesale gas and diesel price (affecting Oil Company Franchise Taxes) that took effect halfway through the prior year ($43.7 million more revenue). Federal revenues increased $35 million due to increases in certain Federally-reimbursable expenditures; reimbursement for flood-related costs from 2004 and 2006 floods, bridge construction, and highway maintenance alone totaled $32.9 million.

On a net basis, the combination of Transportation ($648 million increase) and Capital Outlay ($253 million decrease) expenditures increased by $395 million over the prior fiscal year. The Highway Maintenance and the Highway and Safety Improvements appropriations increased by $357.5 million over last year with a large portion of that ($255.8 million) attributable to road and bridge repairs and construction. This was due to a combination of damage from severe flooding in June and July of 2006 and the exceptionally good construction weather the remainder of the fiscal year. Two programs within the Highway Maintenance appropriation, Inventory Procurement and Maintenance and Operation of Equipment & Machinery, were affected by the rising costs of fuel and oil, with increases of $31.7 million. Another program, Winter Traffic Services, was affected by the 2007 Valentine's Day snow storm. Snow removal and related highway/bridge treatments caused increases in payroll and equipment rental costs amounting to $24 million.

The Motor License Fund includes State Police appropriations for highway patrols and other public safety functions, reported as part of Protection of Persons and Property expenditures; these increased by $113 million, or 20 percent, over the prior last fiscal year. The largest portion of this increase, $69.9 million is attributable to an increase in the state (employer) share of Retired State Police healthcare benefits, along with general salary increases. Also, a new appropriation this fiscal year, Additional State Troopers, caused additional expenditures of $17 million. Accounts Payable increased by $91 million, primarily as a result of overall increases in expenditures.

Tobacco Settlement Fund

Condensed, comparative, financial statement information for the Tobacco Settlement Fund is as follows (amounts in millions):

	2007		2006	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and investments	$ 1,586	85%	$ 1,390	$ 196	14%
Other assets	289	15%	295	(6)	-2%
Total assets	**$ 1,875**	**100%**	**$ 1,685**	**$ 190**	**11%**
Accounts payable	$ 144	22%	$ 141	$ 3	2%
Securities lending obligations	274	43%	184	90	49%
Other liabilities	226	35%	265	(39)	-15%
Total liabilities	**644**	**100%**	**590**	**54**	**9%**
Total fund balance	**1,231**	**100%**	**1,095**	**136**	**12%**
Total liabilities and fund balance	**$ 1,875**	**100%**	**$ 1,685**	**$ 190**	**11%**
Intergovernmental	$ 121	17%	$ 125	$ (4)	-3%
Investment income	148	21%	94	54	57%
Other revenues	445	62%	473	(28)	-6%
Total revenues	**714**	**100%**	**692**	**22**	**3%**
Protection of persons and property	166	30%	134	32	24%
Health and human services	382	69%	384	(2)	-1%
Economic development	3	1%	-	3	
Total expenditures	**551**	**100%**	**518**	**33**	**6%**
Net transfers in (out)	(27)	100%	(29)	2	-7%
Net change in fund balances	**$ 136**		**$ 145**	**$ (9)**	

The year-over-year increase in cash and investments of $196 million is due to 1) a $90 million increase in the size of Treasury's Securities Lending program, 2) the successful active management of specific portfolios (investment income increased by $54 million), and 3) the timing of reimbursements received from the Federal government. Other Liabilities decreased by $39 million because of 1) a prior year $29 million accrual for the PACE program, 2) a prior year $6 million accrual for the Medical Assistance for Workers with Disabilities program (during the current fiscal year both of these items were remitted and posted), and 3) unearned revenue related to the Community Health Reinvestment (CHR) and Master Settlement Agreement (MSA) estimated receivables decreased by $5 million.

During the fiscal year, CHR revenues decreased by $44 million; $135 million was collected in the prior year while only $92 million was collected in the current year. CHR revenues are calculated based on the performance of the participating insurance companies. MSA revenues increased $16 million; $336 million was collected in the prior year compared to $352 million in the current year. MSA revenues are based on tobacco product sales. The net year-over-year changes in both CHR and MSA programs caused a $28 million decrease in Other Revenues. Protection of Persons and Property expenditures increased by $32 million due to an increase in CHR expenditures for the Adult Basic Insurance Program administered by the Department of Insurance. Expenditures for Economic Development increased $3 million due to expenditures for Life Science Greenhouses administration.

Measurement focus and basis of accounting – proprietary funds

The enterprise funds and internal service funds (proprietary funds) are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of these funds are included on the statement of net assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned, and expenses are recognized in the fiscal year incurred. Enterprise funds that report loan, insurance and tuition payment programs report most revenues as operating revenues; non-operating revenues are reported for other programs and include grant revenues and all investment income. Four enterprise funds are reported as major funds and are discussed below (amounts in millions).

Unemployment Compensation Fund

Condensed, comparative, financial statement information for the Unemployment Compensation Fund is as follows (amounts in millions):

	2007		2006	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and investments	$ 1,815	74%	$ 1,554	$ 261	17%
Other assets	652	26%	670	(18)	-3%
Total assets	**2,467**	**100%**	**2,224**	**243**	**11%**
Accounts payable	95	94%	93	2	2%
Other liabilities	6	6%	8	(2)	-25%
Total liabilities	**101**	**100%**	**101**	**-**	
Total net assets	**$ 2,366**	**100%**	**$ 2,123**	**$ 243**	**11%**
Sales and services	$ 2,172	96%	$ 2,372	$ (200)	-8%
Investment income	-		50	(50)	-100%
Other revenues	79	4%	86	(7)	-8%
Total operating revenues	**2,251**	**100%**	**2,508**	**(257)**	**-10%**
Cost of sales and services	2,075	100%	1,999	76	4%
Total operating expenses	**2,075**	**100%**	**1,999**	**76**	**4%**
Operating income	**176**		**509**	**(333)**	**-65%**
Investment income (nonoperating)	**70**		**-**	**70**	
Income before transfers	**246**		**509**	**(263)**	**-52%**
Transfers	**(3)**		**(3)**	**-**	
Increase(decrease) in net assets	**$ 243**		**$ 506**	**$ (263)**	

During the fiscal year ended June 30, 2007, employer assessment revenues decreased by $200 million based, mostly, on the overall employer tax rate dropping from 5.4 percent in fiscal years ended 2005 and 2006 to 5 percent during the current fiscal year. The employer tax rate is established by the Department of Labor & Industry's Unemployment Compensation Tax Services Unit. This rate is based on an employer's experience. Experience is computed using a formula that takes into account how much unemployment benefits an employer was charged versus how much unemployment taxes were paid over the last three years for that particular employer. New employers are given a base rate. Businesses that experience a higher percentage of layoffs, such as construction, are assessed a higher rate compared to businesses that do not have as many layoffs. The reason the rate has dropped is due to the balance maintained in Pennsylvania's Trust Fund (a component of the overall Fund). Once the balance rises to a certain amount, a solvency 'trigger' causes the employer tax rate to drop. Currently the average rate is on a downward trend, which is why fewer employer assessments are being collected.

Although layoffs actually decreased during the current fiscal year, expenses for unemployment compensation benefit claims increased by $76 million during the fiscal year. The average benefit payment increased based on inflationary factors; the average benefit payment is based on average wages. Since wages have increased, so have benefit payment amounts. Also, during calendar years 2005 and 2006, a 2.3 percent benefit reduction was in place. This reduction ended with the beginning of calendar year 2007, which also explains the increase in benefit payments.

Overall revenues exceeded expenses by $243 million, exactly matching the net increase in total assets during the fiscal year, compared to $506 million during the prior fiscal year.

Investment income was reported as operating revenues for the fiscal year ended June 30, 2006 and was reported as nonoperating revenues for the fiscal year ended June 30, 2007.

State Workers' Insurance Fund (December 31, 2006)

Condensed, comparative, financial statement information for the State Workers' Insurance Fund is as follows (amounts in millions):

	2007		2006	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and short-term investments	$ 804	31%	$ 872	$ (68)	-8%
Long-term investments	1,686	64%	1,539	147	10%
Other assets	128	5%	143	(15)	-10%
Total assets	**2,618**	**100%**	**2,554**	**64**	**3%**
Securities lending obligations	684	28%	629	55	9%
Unearned revenue	156	6%	167	(11)	-7%
Insurance loss liability	1,523	63%	1,426	97	7%
Other liabilities	72	3%	56	16	29%
Total liabilities	**2,435**	**100%**	**2,278**	**157**	**7%**
Net assets	**$ 183**	**100%**	**$ 276**	**$ (93)**	**-34%**
Sales and services	$ 374	104%	$ 427	$ (53)	-12%
Investment income	-		67	(67)	-100%
Other revenues	-		1	(1)	-100%
Provision for uncollectible accounts	(13)	-4%	(17)	4	-24%
Total operating revenues	**361**	**100%**	**478**	**(117)**	**-24%**
Cost of sales and services	536	100%	391	145	37%
Interest expense	-		4	(4)	-100%
Total operating expenses	**536**	**100%**	**395**	**141**	**36%**
Operating income	**(175)**		**83**	**(258)**	**-311%**
Investment income (nonoperating)	**82**		**-**	**82**	
Increase(decrease) in net assets	**$ (93)**		**$ 83**	**$ (176)**	

During calendar year 2006, reported year over year premium revenue (Sales and Services) decreased from $427 million to $374 million. A review of application statistics shows that new applications are up by 1 percent from 2005 (17,603 vs. 17,457) while renewals are down 6 percent (41,485 vs 44,198). These statistics also indicate that private insurance carriers are beginning to provide coverage that they have not recently been providing and that a continuing decline in applications for benefits can be expected. Insurance loss liability increased as a result of SWIF's experience and changes to actuarial assumptions. Investment income increased due to realized gains on sales of investments and relatively higher investment fair values. Investment income was reported as operating revenues for the prior year and was reported as nonoperating revenues for the current year.

State Lottery Fund

Condensed, comparative, financial statement information for the State Lottery Fund is as follows (amounts in millions):

	2007		2006	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and short-term investments	$ 764	91%	$ 643	$ 121	19%
Long-term investments	8	1%	9	(1)	-11%
Other assets	65	8%	62	3	5%
Total assets	**837**	**100%**	**714**	**123**	**17%**
Accounts payable	370	76%	234	136	**58%**
Securities lending obligations	88	18%	76	12	16%
Other liabilities	31	6%	46	(15)	-33%
Total liabilities	**489**	**100%**	**356**	**133**	**37%**
Net assets	**$ 348**	**100%**	**$ 358**	**$ (10)**	**-3%**
Sales and services	$ 3,076	97%	$ 3,047	$ 29	1%
Other revenues	79	3%	77	2	3%
Total operating revenues	**3,155**	**100%**	**3,124**	**31**	**1%**
Cost of sales and services	3,014	97%	2,618	396	15%
Other expenses	87	3%	86	1	1%
Total operating expenses	**3,101**	**100%**	**2,704**	**397**	**15%**
Operating income	**54**		**420**	**(366)**	**-87%**
Nonoperating revenues	**40**		**27**	**13**	**48%**
Income before transfers	**94**		**447**	**(353)**	**-79%**
Transfers, net	**(104)**		**(380)**	**276**	**-73%**
Increase(decrease) in net assets	**$ (10)**		**$ 67**	**$ (77)**	

During the fiscal year ended June 30, 2007, the relatively small year-over-year increase in overall sales ($29 million) was primarily attributable to increased Instant Game sales of $119 million and increased online sales of $58 million. The increase in on-line sales was the result of new games: Mix & Match and Treasure Hunt. Those increases were offset by decreases in online sales of Powerball/Powerplay ($122 million) and Lucky for Life ($13 million). The increase in cash and investments of $121 million was primarily the result of a transfer from the Gaming Fund, which is described in the following paragraph. Cost of sales and services increased by $396 million; much of this increase ($248 million) was related to the initiation of the Medical Assistance – Long Term Care program. This program was administered by the Department of Public Welfare and provided a continuum of services that ranged from at-home independent living with community support to institutional care.

Transfers in from other funds increased by $100 million; funding was transferred from the Gaming Fund to help meet the requirements of the expansion of the Property Tax Rent Rebate (PTRR) program. This program was administered by the Department of Revenue and was significantly expanded by Act 1 of Special Session 1 of 2006. The Act expanded both the population of citizens who are eligible for the rebate and the dollar amount of the rebate. The Gaming Fund was required to reimburse the Lottery Fund for the PTRR program expansion. This expansion increased expenses by $195 million. Implementation of the Federal Medicare Part D program pharmacy benefit reduced demand for the Pharmaceutical Assistance Contract for the Elderly (PACE) program. This, in turn, reduced the amount of transfers out from the Lottery Fund to the PACE Fund by $176 million.

Tuition Payment Fund

Condensed, comparative, financial statement information for the Tuition Payment Fund is as follows (amounts in millions):

	2007		2006	Increase (Decrease)	
Description	**Amount**	**Percent**	**Amount**	**Amount**	**Percent**
Cash and short-term investments	$ 297	20%	$ 310	$ (13)	-4%
Long-term investments	1,153	79%	950	203	21%
Other assets	4		4	-	
Total assets	**1,454**	**100%**	**1,264**	**190**	**15%**
Securities lending obligations	155	11%	166	(11)	-7%
Tuition benefits payable	1,231	88%	1,078	153	14%
Other liabilities	10	1%	14	(4)	-29%
Total liabilities	**1,396**	**100%**	**1,258**	**138**	**11%**
Net assets	**$ 58**	**100%**	**$ 6**	**$ 52**	**-867%**
Sales and services	$ 151	100%	$ 114	$ 37	32%
Investment income	-		74	(74)	-100%
Total operating revenues	**151**	**100%**	**188**	**(37)**	**-20%**
Cost of sales and services	268	100%	138	130	94%
Total operating expenses	**268**	**100%**	**138**	**130**	**94%**
Operating income	**(117)**		**50**	**(167)**	**-334%**
Investment income (nonoperating)	**169**		**-**	**169**	
Increase in net assets	**$ 52**		**$ 50**	**$ 2**	

Net assets increased by $2 million during the fiscal year, resulting in total net assets of $52 million at June 30, 2007, from $50 million at June 30, 2006. The Fund is 104 percent funded at June 30, 2007, compared to 101 percent funded at June 30, 2006.

Total revenues for the current fiscal year were $132 million more than the total revenues for the prior fiscal year. Increases in tuition credit purchases of $37 million and increases in investment earnings of $95 million accounted for the majority of the increased revenues between the two fiscal years. The increase in revenue was offset by an increase in total expenditures of $130 million. Increases of $123.1 million for tuition benefit expenses account for the majority of increased expenses.

The fair value of the Fund's net investments (short-term and long-term investments net of securities lending investments) increased to $1,295 million at June 30, 2007, from $1,094 million at June 30, 2006. Effective September 26, 2006, the Fund initiated a limited partnership agreement with GKM Newport Pennsylvania Fund I, L.P. with a total commitment of $60 million at June 30, 2007. The purpose of the new investment vehicle was to enhance investment returns and improve the overall performance of plan assets. Tuition benefits payable increased to $1,231 million at June 30, 2007 from $1,078 million at June 30, 2006.

Actual payments to educational institutions increased to $94.6 million in the June 30, 2007 fiscal year from $74.8 million in the June 30, 2006 fiscal year as 10,047 beneficiaries used 240,002 credits in the current fiscal year compared to 8,544 beneficiaries using 203,347 credits in the prior fiscal year.

Investment income was reported as operating revenues for the fiscal year ended June 30, 2006 and was reported as nonoperating revenues for the fiscal year ended June 30, 2007.

Capital asset activity during the fiscal year ended June 30, 2007

Throughout the fiscal year, Commonwealth agencies acquire or construct capital assets. In governmental fund statements, expenditures for capital assets are typically reported as capital outlay. Funding for a significant portion of capital asset acquisition is provided by proceeds of general obligation bonds issued; such proceeds are generally accounted for in the capital projects funds in the funds financial statements as an other financing source. In the government-wide statements, bond proceeds are reported as additions to long-term bond liabilities and completed project expenditures and construction in progress at fiscal year end are reported as part of general capital assets. Construction in progress for Department of General Services (public works) and Department of Transportation (highway and bridge) projects at June 30, 2007 amounted to $0.4 and $1.8 billion, respectively. Authorized but unissued general obligation bonds at June 30, 2007 totaled $57.2 billion.

General capital assets of the Commonwealth are those used in the performance of specific governmental functions during more than one fiscal year. Capital assets of the proprietary funds are reported in both fund statements and in government-wide statements. Fiduciary fund capital assets are reported in fund statements; fiduciary funds are not included in government-wide statements. General capital assets as of June 30, 2007 amounted to $23.8 billion at actual or estimated historical cost, net of accumulated depreciation of $12.6 billion. In the government-wide statements, depreciation expense for all capital assets is reported to recognize the cost of "using up" capital assets over their estimated useful lives. This treatment differs from reporting capital outlay as current year expenditure in governmental funds. Highway and bridge infrastructure assets are typically funded with Motor License Fund taxes, license and registration fees and Federal revenues. The Motor License Fund reports transportation and capital outlay expenditures in fund statements; a portion of such expenditures is reported as additions to capital assets in government-wide statements. Depreciation of highway and bridge infrastructure assets is not related to the quality or relative value of these assets; rather, it is a specific accounting treatment to recognize the cost of "using up" the assets over long periods of time (25 years for highways and 50 years for bridges.) Depreciation is an allocation of an asset's cost over its estimated useful life and is reported in government-wide statements. Note E to the financial statements provides more information on capital asset activities during the fiscal year ended June 30, 2007.

Long-term debt activity during the fiscal year ended June 30, 2007

The constitution of the Commonwealth of Pennsylvania permits the incurrence of debt, without approval of the electorate, for capital projects specifically authorized in a capital budget. Capital project debt outstanding cannot exceed one and three quarters (1.75) times the average of the annual tax revenues deposited in all funds during the previous five fiscal years. The certified constitutional debt limit at August 31, 2007 was $51.3 billion. Outstanding capital project debt at August 31, 2007 amounted to $6.9 billion, for a remaining legal debt margin of $44.4 billion. In addition to constitutionally authorized capital project debt, the Commonwealth may incur debt for electorate-approved programs, such as economic revitalization, land and water development, water facilities restoration, and certain environmental initiatives; and for special purposes approved by the General Assembly, such as disaster relief.

Total general obligation bond indebtedness outstanding at June 30, 2007 was $8.246 billion. Total debt service fund transfers paid from General Fund and Motor License Fund appropriations to make principal and interest payments to bondholders during the fiscal year ended June 30, 2007 amounted to $849 million and $41 million, respectively. The table that follows shows total outstanding long-term indebtedness for general obligation bonds at the end of the eight most recent fiscal years (expressed in billions).

At June 30	Outstanding Bond Indebtedness
2000	$ 5.367
2001	5.545
2002	6.072
2003	7.031
2004	7.225
2005	7.151
2006	7.658
2007	8.246

Note K to the financial statements provides more specific details on long-term debt balances and activity during the fiscal year ended June 30, 2007.

Debt administration – fiscal year ending June 30, 2008

During the fiscal year ending June 30, 2008, the Office of the Budget currently plans general obligation bond issuances, excluding refundings, amounting to $981 million, a decrease of $92 million as compared to actual bond issuances of $1,073 million, excluding refundings, during the fiscal year ended June 30, 2007. This plan reflects the need to make continued investments in the Commonwealth's capital infrastructure, local capital projects and mass transportation. Additionally, a significant portion of the projected issuances for the 2008 fiscal year is attributable to two major environmental programs which would target capital improvements to water supply and sewage treatment facilities associated with economic development, as well as, general environmental capital improvement projects. Debt principal retirements of $555.3 million are currently planned for the fiscal year ending June 30, 2008.

The Commonwealth continues to evaluate refunding opportunities for its outstanding bonds to reduce interest costs. During the fiscal year ended June 30, 2007, the Commonwealth closed a refunding issue that refunded $239 million of outstanding bonds and will produce $14 million of interest savings over the remaining life of those bonds. As market conditions provide additional opportunities, the Commonwealth may pursue additional refundings.

In addition to general obligation bonds, the Commonwealth may issue tax anticipation notes to meet operating cash needs during certain months of the fiscal year. Tax anticipation notes may be issued only for the General Fund and the Motor License Fund. They may not exceed 20 percent of the funds' estimated revenues for the year and must mature during the fiscal year in which they were issued. Cash shortages may occur during the fiscal year because tax receipts, unlike cash disbursements, are concentrated in the last four months of the fiscal year. The Commonwealth has not issued tax anticipation notes during the past ten fiscal years and has no plans to issue any during the 2008 fiscal year. There were no changes in credit ratings, and there were no debt limitations, restrictions or commitments during the fiscal year ended June 30, 2007 that may affect the Commonwealth's plans during the fiscal year ending June 30, 2008.

Legislative changes during fiscal year 2007-2008

During the fiscal year that began July 1, 2007, the legislature approved several new laws which are expected to change the Commonwealth's financial position in the future.

Act 44, signed July 18, 2007 provides for a new system of funding public transportation and highway and bridge repair in Pennsylvania. On average, the new law will make $532 million available annually over the next 10 years to fund state and local road and bridge repairs and $414 million available to support the 73 public transit systems that provide more than 400 million rides a year to residents in all of Pennsylvania's 67 counties. The new transportation funding law replaces a patchwork transit funding system with the new Public Transportation Trust Fund, which will be funded by sales and other taxes, lottery proceeds and amounts from the Pennsylvania Turnpike Commission.

Act 45, signed July 20, 2007 contains the enabling legislation for a number of important education initiatives funded in Act 8A, the General Appropriations Act of 2007 including: $75 million for the Pre-Kindergarten Counts program, $6 million for School Nutrition Incentives, $20 million additional Accountability Block Grant funds to promote Full-Day Kindergarten. The Act also includes the enabling legislation for the basic education subsidy which will provide $4.9 billion to local school districts. There is also an increase in the Education Improvement Tax Credit which will reduce tax revenues by $16 million during the fiscal year ending June 30, 2008.

Act 55, signed July 25, 2007 amends the Tax Reform Code to make a number of changes including 1) the creation of a Film Tax Credit and the Resource Enhancement and Protection Tax Credit, 2) the treatment of credit losses (bad debts) for the purposes of calculating certain taxes and 3) various other revisions to the Tax Reform Code. The estimated tax revenue decrease for all changes included in Act 55 is approximately $50 million for the fiscal year ending June 30, 2008.

General Fund fiscal year 2007-2008 budget

The General Fund's fiscal year ending 2008 enacted budget increases General Fund expenditures by $864 million, or 3.3 percent. Major increases include education funding at $597.2 million, or 5.5 percent, public welfare funding at $358 million or 3.8 percent, and corrections institutional funding at $18 million or 12.7 percent. In education, the Basic Education appropriation is increased $167.2 million or 3.5 percent and Special Education funding is increased by $54.7 million or 4.3 percent. The new Pre-Kindergarten Counts program provides $75 million to expand early learning

opportunities. Classrooms for the Future provides a $70 million increase in funding for technology in high schools. Additionally, the Pennsylvania Accountability Block Grant to school districts is increased by $25 million to $275 million annually and the Commonwealth's contribution to the Public School Employees' Retirement System is increased $68.4 million in the fiscal year ending 2008.

In public welfare, cost savings initiatives hold the line on increases in some medical assistance funding; however long term living costs increase by $67 million or 9.7 percent. The Cover All Kids program, providing the second year of expanded access to affordable health care for uninsured children, funds an enrollment increase of 10 percent at a cost increase of $16 million.

Funding for administration of state government maintains efficient and effective operations at minimal increases, totaling 2.3 percent less than the fiscal year 2002-03 costs. Cost reductions in the General Fund include non-recurring funding for certain grant programs and disaster relief programs.

Management's discussion and analysis is intended to enhance the reader's understanding of the basic financial statements, which immediately follow. This supplementary information should be read in conjunction with the government-wide financial statements, the fund financial statements and the notes to financial statements.

Basic Financial Statements

Allegheny National Forest

Warren County

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Government-Wide Financial Statements

Capitol Building, Harrisburg

Dauphin County

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash—Note D	$ 89,155	$ 40,885	$ 130,040	$ 1,465,131
Cash with fiscal agents—Note D	-	1,797,051	1,797,051	-
Temporary investments—Note D	11,261,068	2,274,554	13,535,622	1,820,373
Receivables (net):				
Taxes—Note G	2,345,522	-	2,345,522	-
Unemployment assessments	-	510,372	510,372	-
Accounts	676,065	214,259	890,324	182,902
Accrued interest	19,788	36,770	56,558	283,690
Loans—Note G	10,723	48,221	58,944	1,796,782
Lease rentals—Note G	652	-	652	6,774
Investment sale proceeds	12,477	-	12,477	-
Other	27,742	55	27,797	41,416
Due from pension trust funds—Note H	2,914	18	2,932	-
Due from primary government—Note H	-	-	-	9,712
Due from component units—Note H	30,937	434	31,371	81
Due from Federal government	1,613,304	3,424	1,616,728	104,070
Due from political subdivisions	6,624	9,526	16,150	-
Due from other governments	8	24,629	24,637	30
Inventory	88,163	189,132	277,295	30,904
Prepaid and deferred expenses	-	-	-	31,578
Other assets	3,171	23,475	26,646	168,319
Total current assets	16,188,313	5,172,805	21,361,118	5,941,762
Noncurrent assets:				
Long-term investments—Note D	1,260,723	2,846,447	4,107,170	1,948,215
Receivables (net):				
Taxes—Note G	1,242,012	-	1,242,012	-
Loans—Note G	40,249	233,706	273,955	16,079,816
Lease rentals—Note G	-	-	-	8,380
Due from component units—Note H	92,769	-	92,769	-
Non-depreciable capital assets—Note E:				
Land	1,998,693	323	1,999,016	220,508
Construction in progress	2,200,232	4,813	2,205,045	1,439,546
Depreciable capital assets—Note E:				
Land improvements	477,927	-	477,927	218,092
Buildings and building improvements	5,487,172	40,656	5,527,828	2,345,481
Machinery and equipment	844,329	115,350	959,679	715,676
Turnpike infrastructure	-	-	-	4,362,098
Highway infrastructure	18,109,439	-	18,109,439	-
Bridge infrastructure	7,421,580	-	7,421,580	-
Waterway infrastructure	19,650	-	19,650	-
Infrastructure-other	9,663	-	9,663	-
Library books	-	-	-	80,836
Other capital assets	-	-	-	57,046
Less: accumulated depreciation	(12,701,023)	(87,757)	(12,788,780)	(4,271,054)
Net depreciable capital assets	19,668,737	68,249	19,736,986	3,508,175
Other assets	-	-	-	303,522
Total non-current assets	26,503,415	3,153,538	29,656,953	23,508,162
TOTAL ASSETS	$ 42,691,728	$ 8,326,343	$ 51,018,071	$ 29,449,924

- The notes to the financial statements are an integral part of this statement. -

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	$ 4,377,948	$ 620,605	$ 4,998,553	$ 507,552
Investment purchases payable	34,718	-	34,718	-
Tax refunds payable	677,234	-	677,234	-
Tuition benefits payable—Note F	-	156,006	156,006	-
Securities lending obligations	1,358,944	973,937	2,332,881	50,174
Internal balances—Note H	(88,181)	87,331	(850)	-
Due to pension trust funds—Note H	7,873	227	8,100	-
Due to primary government—Note H	-	-	-	22,769
Due to component units—Note H	9,134	-	9,134	81
Due to political subdivisions	1,101,546	-	1,101,546	-
Due to other governments	50,081	6,482	56,563	-
Interest payable	143,048	-	143,048	155,018
Unearned revenue	92,771	168,680	261,451	85,898
Notes payable—Note J	-	-	-	961,301
General obligation bonds payable—Note K	559,402	-	559,402	-
Bonds payable—Note K	-	-	-	30,694
Revenue bonds payable—Note K	-	-	-	282,788
Self insurance liabilities—Note M	154,816	4,610	159,426	2,262
Compensated absence liability—Notes F, K	117,313	4,979	122,292	22,883
Other financing obligations—Note J	6,000	-	6,000	4,849
Other liabilities	84,933	52,926	137,859	339,838
Total current liabilities	8,687,580	2,075,783	10,763,363	2,466,107
Noncurrent liabilities:				
Tuition benefits payable—Note F	-	1,075,222	1,075,222	-
Due to primary government—Note H	-	-	-	92,769
Unearned revenue	-	-	-	3,900
Demand revenue bonds payable—Note J	-	-	-	9,089,176
Insurance loss liability—Note F	-	1,523,871	1,523,871	-
Notes payable—Note J	-	-	-	1,643,464
General obligation bonds payable—Note K	7,686,271	-	7,686,271	-
Bonds payable—Note K	-	-	-	571,606
Revenue bonds payable—Note K	-	-	-	7,997,369
Capital lease/installment purchase obligations—Notes F, K	40,649	17,375	58,024	-
Other financing obligations—Note J	70,500	-	70,500	182,874
Compensated absence liability—Note F, K	575,512	27,829	603,341	105,213
Self insurance liabilities—Note M	605,411	18,233	623,644	16,308
Other liabilities—Note K	628,954	-	628,954	967,039
Total non-current liabilities	9,607,297	2,662,530	12,269,827	20,669,718
TOTAL LIABILITIES	18,294,877	4,738,313	23,033,190	23,135,825
NET ASSETS—Note C				
Invested in capital assets, net of related debt	20,015,677	56,010	20,071,687	1,338,228
Restricted for:				
Smoking cessation and other health-related programs	1,454,502	2,413	1,456,915	3,000
Transportation	1,266,928	58,085	1,325,013	255,444
Capital projects	213,556	-	213,556	2,828,346
Debt service	20,474	-	20,474	436,824
Unemployment/worker's compensation	104,579	2,547,726	2,652,305	-
Elderly programs	10,808	340,836	351,644	-
Environmental and conservation programs	473,210	-	473,210	-
Economic stimulus	16,217	288,246	304,463	72,251
Gaming licensing/regulation	299,396	-	299,396	-
Correctional industries and procurement	30,348	-	30,348	-
Emergency support	60,917	129,546	190,463	-
Other purposes	87,077	165,168	252,245	1,202,002
Unrestricted	343,162	-	343,162	178,004
TOTAL NET ASSETS	$ 24,396,851	$ 3,588,030	$ 27,984,881	$ 6,314,099

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Sales and Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
Direction and supportive services	$ 1,208,409	$ 143,290	$ 40,999	$ -	$ (1,024,120)	$ -	$ (1,024,120)	$ -
Protection of persons and property	4,487,633	1,309,256	979,685	5,102	(2,193,590)	-	(2,193,590)	-
Public education	12,464,663	14,793	1,568,038	-	(10,881,832)	-	(10,881,832)	-
Health and human services	24,264,933	1,730,965	12,388,172	-	(10,145,796)	-	(10,145,796)	-
Economic development	1,738,172	12,277	605,400	-	(1,120,495)	-	(1,120,495)	-
Transportation	3,922,517	952,866	1,584,372	18,260	(1,367,019)	-	(1,367,019)	-
Recreation and cultural enrichment	569,510	162,168	62,334	133	(344,875)	-	(344,875)	-
Interest	344,557	-	-	-	(344,557)	-	(344,557)	-
Total governmental activities	49,000,394	4,325,615	17,229,000	23,495	(27,422,284)	-	(27,422,284)	-
Business-type activities:								
State lottery	3,100,523	3,076,013	119,092	-	-	94,582	94,582	-
State workers' insurance	553,512	374,088	86,696	-	-	(92,728)	(92,728)	-
Tuition payment	267,941	151,121	169,458	-	-	52,638	52,638	-
Unemployment compensation	2,074,382	2,172,900	147,616	-	-	246,134	246,134	-
Liquor control	1,277,871	1,364,524	15,693	-	-	102,346	102,346	-
Economic development and other	14,470	20,068	80,764	-	-	86,362	86,362	-
Total business-type activities	7,288,699	7,158,714	619,319	-	-	489,334	489,334	-
Total primary government	$ 56,289,093	$ 11,484,329	$ 17,848,319	$ 23,495	(27,422,284)	489,334	(26,932,950)	-
Component units:								
Total component units	$ 4,789,084	$ 2,792,273	$ 2,047,079	$ 171,900	-	-	-	222,168
General revenues:								
Taxes:								
Personal income					9,951,585	-	9,951,585	-
Sales and use					8,629,815	-	8,629,815	-
Corporation					4,985,031	-	4,985,031	-
Liquid fuels and motor carriers					2,072,442	-	2,072,442	67,071
Gaming					251,059	-	251,059	-
Inheritance					716,788	-	716,788	-
Cigarette					983,580	-	983,580	-
Real estate					583,991	-	583,991	-
Other					475,197	-	475,197	-
Total taxes					28,649,488	-	28,649,488	67,071
Investment income					320,342	-	320,342	-
Total general revenues					28,969,830	-	28,969,830	67,071
Transfers—Note H					257,343	(257,343)	-	-
Net general revenues and transfers					29,227,173	(257,343)	28,969,830	67,071
Change in net assets					1,804,889	231,991	2,036,880	289,239
Net assets, July 1, 2006 (restated)—Note B					22,591,962	3,356,039	25,948,001	6,024,860
Net assets, June 30, 2007—Note C					$ 24,396,851	$ 3,588,030	$ 27,984,881	$ 6,314,099

- The notes to the financial statements are an integral part of this statement. -

Fund Financial Statements

The National Aviary, Pittsburgh

Allegheny County

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
ASSETS					
Assets:					
Cash—Note D	$ 72,962	$ 810	$ 2,409	$ 8,678	$ 84,859
Temporary investments—Note D	5,999,154	1,853,077	799,953	2,557,896	11,210,080
Long-term investments—Note D	-	-	784,045	476,678	1,260,723
Receivables, net:					
Taxes—Note G	3,384,779	178,355	-	24,400	3,587,534
Accounts	112,366	16,800	211,753	23,902	364,821
Accrued interest	2,319	9	8,089	9,373	19,790
Loans—Note G	11,113	-	-	39,859	50,972
Lease rentals—Note G	-	-	-	652	652
Investment sale proceeds	-	-	10,747	1,730	12,477
Other	-	6,853	-	20,889	27,742
Due from other funds—Note H	28,828	804	-	49,149	78,781
Due from pension trust funds—Note H	1,550	416	-	-	1,966
Due from component units—Note H	1,198	-	-	25,570	26,768
Due from Federal government	1,423,656	193,053	58,582	19,557	1,694,848
Due from political subdivisions	6,416	117	-	91	6,624
Due from other governments	1	-	-	-	1
Advances to other funds—Note H	114,108	-	-	3,000	117,108
Other assets	3,000	-	-	-	3,000
TOTAL ASSETS	$ 11,161,450	$ 2,250,294	$ 1,875,578	$ 3,261,424	$ 18,548,746
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 3,369,250	$ 522,642	$ 118,160	$ 342,552	$ 4,352,604
Investment purchases payable	-	-	27,357	7,361	34,718
Tax refunds payable	674,057	3,177	-	-	677,234
Securities lending obligations	619,759	206,509	273,551	253,442	1,353,261
Due to other funds—Note H	52,543	22,307	988	14,913	90,751
Due to component units—Note H	2,427	6,695	-	12	9,134
Due to pension trust funds	6,262	1,347	-	244	7,853
Due to political subdivisions	960,171	34,456	12,764	94,155	1,101,546
Due to other governments	13,032	27,505	1	9,495	50,033
Unearned revenue	2,014,430	4,700	211,753	23,851	2,254,734
Advances from other funds—Note H	76,500	2,175	-	10,333	89,008
Other liabilities	2,153	-	-	-	2,153
TOTAL LIABILITIES	7,790,584	831,513	644,574	756,358	10,023,029
Fund balances:					
Reserved for:					
Encumbrances	570,027	596,304	897	1,329,950	2,497,178
Advances—Note C	114,108	-	-	3,000	117,108
Loans receivable	11,113	-	-	39,859	50,972
Budget Stabilization fund	538,764	-	-	-	538,764
Other—Note C	844,229	2,014	1,230,107	97,586	2,173,936
Unreserved:					
Designated for:					
Capital projects	-	-	-	65,455	65,455
Debt service:					
Retirement of general obligation bonds	-	-	-	20,474	20,474
Highways	-	235,730	-	-	235,730
Other—Note C	923,966	-	-	11,268	935,234
Undesignated (deficit)-reported in:					
General Fund	368,659	-	-	-	368,659
Special Revenue Funds	-	584,733	-	1,387,096	1,971,829
Capital Projects Funds	-	-	-	(449,622)	(449,622)
TOTAL FUND BALANCES	3,370,866	1,418,781	1,231,004	2,505,066	8,525,717
TOTAL LIABILITIES AND FUND BALANCES	$ 11,161,450	$ 2,250,294	$ 1,875,578	$ 3,261,424	$ 18,548,746

- The notes to the financial statements are an integral part of this statement. -

RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS *June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

The governmental funds balance sheet reports total fund balance for all governmental funds. In the governmental activities column in the Statement of Net Assets, amounts are reported for all governmental funds and are adjusted to account for specific items that are treated differently on the Statement of Net Assets than on the governmental funds balance sheet. Under the modified accrual basis of accounting, numerous governmental assets are not reported because they may not be "available," (that is, they are not current financial resources) and, similarly, numerous governmental liabilities are not reported because they are not due and payable until after fiscal year end. The following reconciliation begins with total governmental funds fund balance and ends with total net assets for governmental activities. It includes all of the adjustments made to "convert" governmental fund information in the fund financial statements to governmental activities information in the Statement of Net Assets.

Total Fund Balances--Governmental Funds		$ 8,525,717
General capital assets used in governmental activities are not financial resources and are therefore not reported in the governmental funds balance sheet. (Refer to Note E.) These assets consist of:		
Land	$ 1,998,687	
Land improvements	477,506	
Buildings and building improvements	5,481,642	
Machinery and equipment	744,506	
Infrastructure	25,560,332	
Construction in progress	2,200,232	
Accumulated depreciation	(12,638,726)	
Net general capital assets		23,824,179
Certain revenues are earned but not available at fiscal year-end and therefore are reported as unearned revenues in the governmental funds balance sheet		2,161,971
Certain receivables are not reported as governmental fund assets because they are not collected during the availability period under the modified accrual basis of accounting		324,550
Internal service funds are proprietary in nature and charge the costs of certain goods and services to governmental funds. Therefore, the assets and liabilities of the internal service funds are included in the Statement of Net Assets as governmental activities		73,831
The Statement of Net Assets includes inventories that are not reported in the governmental funds balance sheet because they are not current financial resources		77,504
Certain general long-term liabilities are not due and payable at fiscal year-end and therefore are not reported in the governmental funds balance sheet. (Refer to Note K.) These liabilities are:		
Bonds payable	$ (8,245,673)	
Accrued bond interest payable	(143,048)	
Capital lease and installment purchase obligations	(40,649)	
Compensated absence liability	(691,100)	
Self-insurance liabilities	(758,693)	
Other liabilities	(711,738)	
		(10,590,901)
Total Net Assets---Governmental Activities		$ 24,396,851

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	General Fund	Motor License Fund	Tobacco Settlement Fund	Nonmajor Funds	Total
REVENUES:					
Taxes, net of refunds	$ 25,992,166	$ 2,072,442	$ -	$ 483,672	$ 28,548,280
Licenses and fees	366,519	878,679	-	709,590	1,954,788
Intergovernmental	15,160,953	1,448,007	120,544	161,708	16,891,212
Charges for sales and services	1,334,855	116,586	-	147,123	1,598,564
Investment income	307,810	131,211	147,529	183,270	769,820
Lease rental principal and interest	-	-	-	99	99
Interest on notes and loans	6	-	-	128	134
Other	139,838	2,234	444,752	20,144	606,968
TOTAL REVENUES	43,302,147	4,649,159	712,825	1,705,734	50,369,865
EXPENDITURES:					
Current:					
Direction and supportive services	892,397	66,572	-	145,824	1,104,793
Protection of persons and property	3,335,713	667,318	166,060	452,028	4,621,119
Health and human services	23,536,324	-	380,701	375,986	24,293,011
Public education	12,372,125	991	-	66,804	12,439,920
Recreation and cultural enrichment	353,018	408	-	190,691	544,117
Economic development	1,204,253	-	3,443	528,692	1,736,388
Transportation	434,737	2,326,944	-	327,863	3,089,544
Capital outlay	25,275	1,672,026	-	424,331	2,121,632
Debt service:					
Principal retirement	-	-	-	521,773	521,773
Interest and fiscal charges	3,230	-	-	357,858	361,088
TOTAL EXPENDITURES	42,157,072	4,734,259	550,204	3,391,850	50,833,385
REVENUES OVER (UNDER) EXPENDITURES	1,145,075	(85,100)	162,621	(1,686,116)	(463,520)
OTHER FINANCING SOURCES (USES):					
Bonds issued	-	-	-	1,008,104	1,008,104
Refunding bonds issued	-	-	-	250,557	250,557
Premium on bonds/refunding bonds issued	-	-	-	58,166	58,166
Discount on bonds issued	-	-	-	(157)	(157)
Transfers in—Note H	200,564	-	-	1,263,056	1,463,620
Transfers out—Note H	(945,904)	(45,351)	(26,898)	(170,626)	(1,188,779)
Payment to refunded bond escrow agent	-	-	-	(253,892)	(253,892)
Capital lease and installment purchase obligations	1,582	154	-	-	1,736
NET OTHER FINANCING SOURCES (USES)	(743,758)	(45,197)	(26,898)	2,155,208	1,339,355
NET CHANGE IN FUND BALANCES	401,317	(130,297)	135,723	469,092	875,835
FUND BALANCES, JULY 1, 2006	2,969,549	1,549,078	1,095,281	2,035,974	7,649,882
FUND BALANCES, JUNE 30, 2007	$ 3,370,866	$ 1,418,781	$ 1,231,004	$ 2,505,066	$ 8,525,717

- The notes to the financial statements are an integral part of this statement. -

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

The governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances reports events and activities that affect, on a current financial resources basis, fund balance changes during the fiscal year. The governmental activities column on the government-wide Statement of Activities conveys information on an economic basis. In effect, the government-wide statement demonstrates all expenses and revenues related to the operation of the government for the fiscal year ended June 30, 2007. Expenses such as depreciation and certain claims and judgments and revenues that may not be collected for several months after fiscal-year end are included in the government-wide statement but are not included in the governmental funds statement. This reconciliation reports all economic events during the fiscal year that appear on the government-wide Statement of Activities but are not included in the governmental funds statement.

Net change in total fund balances of governmental funds		$ 875,835
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds; however, in the government-wide statements capital outlays are reported as increases in capital assets (not expenses) and the cost of general capital assets is allocated over their estimated useful lives and reported as depreciation expense. All depreciation is reported as part of functional program expenses. (Refer to Note E) The current amounts were:		
Capital asset acquisitions (net)	$ 2,131,495	
Depreciation expense	(998,468)	
Capital lease, installment purchase and related payments	3,146	
Net excess of capital asset additions/installment purchase payments over depreciation expense		1,136,173
Bond proceeds provide current financial resources to governmental funds; however, issuing bonds increases general long-term liabilities in the statement of net assets. During the current fiscal year, proceeds were received from:		
General obligation bonds, including a premium/discount of $54,673	$ (1,062,779)	
Refunding bonds, including a premium of $3,336	(253,892)	
Total bond proceeds		(1,316,671)
Repayment of general long-term liabilities is reported as an expenditure in governmental funds, but the repayment reduces general long-term liabilities in the statement of net assets. During the current fiscal year, these amounts consisted of:		
Bond principal retirement	$ 521,773	
Payments to refunded bond escrow agent	253,892	
Total long-term debt repayment		775,665
Internal service funds charge the costs of certain goods and services to individual funds. The net loss of the internal service funds is reported as part of governmental activities expenses		(34,880)
Certain tax and other revenues due by fiscal year end will not be collected for several months or years after fiscal year end; they are not considered available revenues in the governmental funds, but they are reported as revenues in the statement of activities		167,245
Certain expense adjustments are reported in the statement of activities because they are due and payable and are funded with future economic resources rather than current available financial resources		201,522
Net change in governmental net assets in the statement of activities		$ 1,804,889

- The notes to the financial statements are an integral part of this statement. -

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2006)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
ASSETS							
Current assets:							
Cash	$ 11,744	$ 9,498	$ 206	$ 252	$ 19,185	$ 40,885	$ 4,296
Cash with fiscal agents—Note D	1,797,051	-	-	-	-	1,797,051	-
Temporary investments—Note D	6,041	794,399	763,408	296,981	413,725	2,274,554	50,988
Receivables (net):							
Unemployment assessments	510,372	-	-	-	-	510,372	-
Accounts	82,484	104,216	25,139	-	2,420	214,259	1,480
Accrued interest	19,080	13,153	-	4,077	460	36,770	-
Loans—Note G	-	-	-	-	48,221	48,221	-
Other	-	-	13	-	42	55	-
Due from other funds—Note H	3,233	-	-	-	2,886	6,119	10,177
Due from pension trust funds	2	-	-	-	16	18	948
Due from component units—Note H	428	-	-	-	6	434	606
Due from Federal government	2,658	-	709	-	57	3,424	-
Due from political subdivisions	9,526	-	-	-	-	9,526	-
Due from other governments	24,629	-	-	-	-	24,629	7
Inventory	-	-	-	-	189,132	189,132	10,659
Other assets	-	8,746	14,729	-	-	23,475	171
Total current assets	2,467,248	930,012	804,204	301,310	676,150	5,178,924	79,332
Noncurrent assets:							
Long-term investments	-	1,685,969	7,741	1,152,737	-	2,846,447	-
Receivables (net):							
Loans—Note G	-	-	-	-	233,706	233,706	-
Non-depreciable capital assets—Note E:							
Land	-	-	-	-	323	323	6
Construction in progress	-	-	-	-	4,813	4,813	-
Depreciable capital assets—Note E:							
Land improvements	-	-	-	-	-	-	421
Buildings and building improvements	-	-	-	-	40,656	40,656	5,530
Machinery and equipment	-	2,678	43,625	-	69,047	115,350	99,823
Less: accumulated depreciation	-	(1,095)	(18,808)	-	(67,854)	(87,757)	(62,297)
Net depreciable capital assets	-	1,583	24,817	-	41,849	68,249	43,477
Total noncurrent assets	-	1,687,552	32,558	1,152,737	280,691	3,153,538	43,483
TOTAL ASSETS	2,467,248	2,617,564	836,762	1,454,047	956,841	8,332,462	122,815
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	94,961	12,931	369,891	9,267	133,555	620,605	25,339
Tuition benefits payable—Note F	-	-	-	156,006	-	156,006	-
Securities lending obligations	673	684,183	88,263	155,038	45,780	973,937	5,683
Due to other funds—Note H	10	-	284	6	3,330	3,630	326
Due to pension trust funds	-	-	17	-	210	227	21
Due to other governments	5,322	-	219	-	941	6,482	48
Unearned revenue	77	155,841	9,584	-	3,178	168,680	8
Self insurance	-	335	258	-	4,017	4,610	310
Compensated absences	-	379	252	-	4,348	4,979	276
Advances from other funds	-	1,820	-	-	88,000	89,820	14,300
Other liabilities	-	52,926	-	-	-	52,926	-
Total current liabilities	101,043	908,415	468,768	320,317	283,359	2,081,902	46,311
Noncurrent liabilities:							
Tuition benefits payable—Note F	-	-	-	1,075,222	-	1,075,222	-
Insurance loss liability—Note F	-	1,522,869	-	-	1,002	1,523,871	-
Capital lease	-	-	17,375	-	-	17,375	-
Compensated absences	-	1,850	1,321	96	24,562	27,829	1,449
Self insurance	-	1,326	1,020	-	15,887	18,233	1,224
Total noncurrent liabilities	-	1,526,045	19,716	1,075,318	41,451	2,662,530	2,673
TOTAL LIABILITIES	101,043	2,434,460	488,484	1,395,635	324,810	4,744,432	48,984
NET ASSETS							
Invested in capital assets, net of related debt	-	1,583	7,442	-	46,985	56,010	43,483
Restricted for:							
Smoking cessation and other health-related programs	-	-	-	-	2,413	2,413	-
Transportation	-	-	-	-	58,085	58,085	-
Unemployment/workers' compensation	2,366,205	181,521	-	-	-	2,547,726	-
Elderly programs	-	-	340,836	-	-	340,836	-
Economic stimulus	-	-	-	-	288,246	288,246	-
Correctional industries and procurement	-	-	-	-	-	-	30,348
Emergency support	-	-	-	-	129,546	129,546	-
Other purposes—Note C	-	-	-	58,412	106,756	165,168	-
Unrestricted (deficit)	-	-	-	-	-	-	-
TOTAL NET ASSETS	$ 2,366,205	$ 183,104	$ 348,278	$ 58,412	$ 632,031	$ 3,588,030	$ 73,831

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Proprietary Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2006)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
OPERATING REVENUES:							
Sales and services	$ 2,171,789	$ 373,999	$ 3,076,572	$ 151,121	$ 1,373,248	$ 7,146,729	$ 59,656
Interest on loans	-	-	-	-	7,384	7,384	-
Other	78,741	89	78,576	-	2,260	159,666	27
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTIBLE ACCOUNTS	2,250,530	374,088	3,155,148	151,121	1,382,892	7,313,779	59,683
Provision for uncollectible accounts	-	(13,280)	-	-	(629)	(13,909)	(3,579)
NET OPERATING REVENUES	2,250,530	360,808	3,155,148	151,121	1,382,263	7,299,870	56,104
OPERATING EXPENSES:							
Cost of sales and services	2,074,382	535,671	3,013,490	267,941	1,283,876	7,175,360	71,586
Depreciation	-	-	7,893	-	7,836	15,729	6,494
Other	-	-	79,135	-	-	79,135	-
TOTAL OPERATING EXPENSES	2,074,382	535,671	3,100,518	267,941	1,291,712	7,270,224	78,080
OPERATING INCOME (LOSS)	176,148	(174,863)	54,630	(116,820)	90,551	29,646	(21,976)
NONOPERATING REVENUES (EXPENSES):							
Investment income	69,986	86,696	39,957	169,458	36,457	402,554	6,118
Investment expense	-	(4,561)	-	-	-	(4,561)	-
Other revenues	-	-	-	-	1,700	1,700	1
Other expenses	-	-	(5)	-	-	(5)	(1,523)
NONOPERATING REVENUES, NET	69,986	82,135	39,952	169,458	38,157	399,688	4,596
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	246,134	(92,728)	94,582	52,638	128,708	429,334	(17,380)
CONTRIBUTIONS AND TRANSFERS:							
Capital contributions	-	-	-	-	60,000	60,000	-
Transfers in—Note H	-	-	100,000	-	2,057	102,057	-
Transfers out—Note H	(3,400)	-	(204,000)	-	(152,000)	(359,400)	(17,500)
CONTRIBUTIONS AND TRANSFERS, NET	(3,400)	-	(104,000)	-	(89,943)	(197,343)	(17,500)
INCREASE (DECREASE) IN NET ASSETS	242,734	(92,728)	(9,418)	52,638	38,765	231,991	(34,880)
TOTAL NET ASSETS, JULY 1, 2006	2,123,471	275,832	357,696	5,774	593,266	3,356,039	108,711
TOTAL NET ASSETS, JUNE 30, 2007	$ 2,366,205	$ 183,104	$ 348,278	$ 58,412	$ 632,031	$ 3,588,030	$ 73,831

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF CASH FLOWS
Proprietary Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2006)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:							
Receipts from employers	$ 2,189,918	$ 378,859	$ -	$ -	$ -	$ 2,568,777	$ -
Receipts from customers	-	-	3,064,865	151,203	1,368,782	4,584,850	66,127
Receipts from borrowers	-	-	-	-	23,067	23,067	-
Receipt of premiums	-	-	-	-	6,566	6,566	-
Payments to programs for the elderly	-	-	(745,435)	-	-	(745,435)	-
Payments to prize winners	-	-	(1,710,387)	-	-	(1,710,387)	-
Payments to participants	-	-	-	(109,298)	-	(109,298)	-
Payments to claimants	(2,074,711)	(352,307)	-	-	(3,068)	(2,430,086)	-
Payments to borrowers	-	-	-	-	(37,167)	(37,167)	-
Payments for vendors, employees and other costs	-	(70,961)	(425,861)	(10,614)	(1,238,740)	(1,746,176)	(65,014)
Other receipts (payments)	78,741	89	(559)	-	1,827	80,098	27
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	193,948	(44,320)	182,623	31,291	121,267	484,809	1,140
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES							
Net borrowings under advances from other funds	-	151	-	-	-	151	-
Transfers in	-	-	100,000	-	2,057	102,057	-
Transfers out	(3,400)	-	(204,000)	-	(152,000)	(359,400)	(17,500)
Capital contributions	-	-	-	-	60,000	60,000	-
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(3,400)	151	(104,000)	-	(89,943)	(197,192)	(17,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:							
Acquisition and construction of capital assets	-	-	(944)	-	(3,771)	(4,715)	(12,281)
Disposition of capital assets	-	-	-	-	21	21	-
Capital lease payments	-	-	(10,884)	-	-	(10,884)	-
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	-	-	(11,828)	-	(3,750)	(15,578)	(12,281)
CASH FLOWS FROM INVESTING ACTIVITIES:							
Purchase of investments	(7,462)	(1,570,289)	(1,413,778)	(1,568,153)	(964,036)	(5,523,718)	(281,072)
Sales and maturities of investments	5,449	1,496,842	1,302,309	1,512,813	899,866	5,217,279	306,456
Investment income	69,930	70,024	32,782	34,434	31,241	238,411	5,547
Investment expense	-	(4,561)	-	-	-	(4,561)	-
Change in securities lending obligations	218	54,937	11,798	(10,446)	6,430	62,937	(2,996)
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	68,135	46,953	(66,889)	(31,352)	(26,499)	(9,652)	27,935
NET INCREASE (DECREASE) IN CASH	258,683	2,784	(94)	(61)	1,075	262,387	(706)
CASH AT JULY 1, 2006	1,550,112	6,714	300	313	18,110	1,575,549	5,002
CASH AT JUNE 30, 2007	$ 1,808,795	$ 9,498	$ 206	$ 252	$ 19,185	$ 1,837,936	$ 4,296

STATEMENT OF CASH FLOWS
Proprietary Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Enterprise Funds						Internal Service Funds
	Unemployment Compensation Fund	State Workers' Insurance Fund (Dec. 31, 2006)	State Lottery Fund	Tuition Payment Fund	Nonmajor Funds	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES							
Operating income (loss)	$ 176,148	$ (174,863)	$ 54,630	$ (116,820)	$ 90,551	$ 29,646	$ (21,976)
Depreciation and amortization	-	-	7,893	-	7,836	15,729	6,494
Provision for uncollectible accounts	-	13,280	-	-	629	13,909	3,579
Non-operating revenues	-	-	-	-	1,700	1,700	1
Changes in assets and liabilities:							
Accounts receivable	(21,214)	21,783	(12,696)	82	(21,717)	(33,762)	342
Unemployment compensation assessments receivable	44,315	-	-	-	-	44,315	-
Inventory	-	-	-	-	26,160	26,160	(139)
Due from other funds	(424)	-	-	-	(779)	(1,203)	6,190
Due from component units	(66)	-	-	-	1	(65)	(99)
Due from other governments	(9,554)	-	990	-	(57)	(8,621)	209
Due from political subdivisions	4,995	-	-	-	-	4,995	50
Other current assets	-	(6,159)	1,001	-	4	(5,154)	(83)
Accounts payable and accrued liabilities	1,500	2,094	135,954	(4,730)	16,965	151,783	6,806
Tuition benefits payable	-	-	-	152,748	-	152,748	-
Due to other funds	5	-	229	(9)	(127)	98	(111)
Due to political subdivisions	-	-	(910)	-	-	(910)	-
Due to other governments	(1,834)	-	117	-	264	(1,453)	8
Unearned revenue	77	(10,764)	(4,574)	-	209	(15,052)	-
Insurance loss liability	-	96,692	-	-	392	97,084	-
Other liabilities	-	13,617	(11)	20	(764)	12,862	(131)
Total Adjustments	17,800	130,543	127,993	148,111	30,716	455,163	23,116
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 193,948	$ (44,320)	$ 182,623	$ 31,291	$ 121,267	$ 484,809	$ 1,140
Increase in fair value of investments during the fiscal year	$ 56	$ 10,812	$ 7,175	$ 134,939	$ 5,616	$ 158,598	$ 571

There were no material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF FIDUCIARY NET ASSETS
Fiduciary Funds

June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund: INVEST Program for Local Governments (December 31, 2006)	Private Purpose Trust Fund: Tuition Account Investment Program	Agency Funds
ASSETS				
Cash—Note D	$ 1,899	$ -	$ 56	$ 31,962
Cash with fiscal agents—Note D	-	-	-	67,990
Temporary investments—Note D	8,413	763,447	-	1,037,241
Long-term investments—Note D	20,839	-	437,187	2,405,887
Short-term funds—Note D	4,868,235	-	-	-
Corporate obligations—Note D	5,176,830	-	-	-
Collective trust funds—Note D	9,303,216	-	-	-
Real estate—Note D	6,409,404	-	-	-
Alternative—Note D	10,066,729	-	-	-
Securities lending collateral—Note D	12,046,440	-	-	-
Asset-backed securities—Note D	345,839	-	-	-
Domestic equities—Note D	25,450,734	-	-	-
International equities—Note D	25,471,978	-	-	-
International private debt securities—Note D	672,500	-	-	-
International public debt securities—Note D	2,032,769	-	-	-
Mortgage-backed securities—Note D	6,789,729	-	-	-
Private placements—Note D	358,177	-	-	-
State and municipal obligations—Note D	234	-	-	-
U.S. Treasury obligations—Note D	4,506,393	-	-	-
U.S. government agency debt securities—Note D	668,687	-	-	-
Receivables, net:				
Taxes—Note G	-	-	-	24,992
Accounts	-	-	13	213,225
Accrued interest	86,140	-	581	1,988
Loans—Note G	-	-	-	2,030
Pension contributions	525,368	-	-	-
Investment sale proceeds	1,288,707	-	-	295
Other	233,866	-	-	183,964
Due from other funds—Note H	1,987	-	-	-
Due from pension trust funds—Note H	3,917	-	-	-
Due from component units—Note H	2,959	-	-	-
Due from political subdivisions	3,321	-	-	-
Due from other governments	23	-	-	-
Advances to other funds—Note H	-	-	-	76,500
Depreciable capital assets:				
Machinery and equipment	11,526	-	-	-
Less: accumulated depreciation	(10,656)	-	-	-
Net depreciable capital assets	870	-	-	-
Other assets	-	-	-	2,254,319
TOTAL ASSETS	116,346,203	763,447	437,837	6,300,393
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	144,339	2,676	238	36,446
Investment purchases payable	2,648,573	-	56	587
Securities lending obligations	12,046,440	-	-	49,821
Due to other funds—Note H	852	-	-	-
Due to pension trust funds—Note H	4,989	-	-	-
Due to political subdivisions	-	-	-	366,484
Due to other governments	-	-	-	13
Self insurance liabilities	-	-	-	345
Other liabilities	228,826	-	-	5,846,697
TOTAL LIABILITIES	15,074,019	2,676	294	6,300,393
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits	99,393,827	-	-	-
Healthcare benefits	181,707	-	-	-
Employee salary deferrals	1,696,650	-	-	-
INVEST Program participants	-	760,771	-	-
Tuition Account Investment Program participants	-	-	437,543	-
TOTAL NET ASSETS	$ 101,272,184	$ 760,771	$ 437,543	$ -

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Fund: INVEST Program for Local Governments (December 31, 2006)	Private Purpose Trust Fund: Tuition Account Investment Program
ADDITIONS:			
Pension contributions:			
Employer	$ 970,517	$ -	$ -
Employee	1,443,764	-	-
Transfer in from other plans	20,731	-	-
Total contributions	2,435,012	-	-
Investment income:			
Net appreciation in fair value of investments	14,963,243	-	11,758
Interest income	1,279,758	31,087	38,063
Dividend income	1,172,012	-	-
Rental and other income	760,004	-	-
Total investment activity income	18,175,017	31,087	49,821
Less: investment expenses			
Investment activity expense	(613,470)	(958)	(2,880)
Net investment earnings	17,561,547	30,129	46,941
Securities lending activities:			
Income	590,437	-	-
Expenses	(554,006)	-	-
Total securities lending income	36,431	-	-
Total net investment income	17,597,978	30,129	46,941
Share transactions (at net asset value of $1.00 per share):			
Shares purchased	-	1,777,309	218,965
Shares issued in lieu of cash distributions	-	26,389	3,916
Shares redeemed	-	(1,623,561)	(159,876)
Net increase (decrease) in net assets from share transactions	-	180,137	63,005
TOTAL ADDITIONS	20,032,990	210,266	109,946
DEDUCTIONS:			
Benefit payments	6,248,860	-	-
Refunds of contributions	26,276	-	-
Transfers to other plans	79,725	-	-
Administrative expenses	74,574	-	-
Other expenses	2,811	-	-
Distributions to participants	-	30,129	-
TOTAL DEDUCTIONS	6,432,246	30,129	-
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:			
Pension and other employee benefits	13,406,289	-	-
Healthcare benefits	73	-	-
Employee salary deferrals	194,382	-	-
INVEST program participants	-	180,137	-
Tuition Account Investment Program participants	-	-	109,946
Net assets, July 1, 2006	87,671,440	580,634	327,597
Net assets, June 30, 2007	$ 101,272,184	$ 760,771	$ 437,543

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF NET ASSETS
Discretely Presented Component Units

June 30, 2007

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania Turnpike Commission (May 31, 2007)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
ASSETS							
Current assets:							
Cash—Note D	$ 130,469	$ 749,170	$ 148,398	$ 399	$ 89,780	$ 346,915	$ 1,465,131
Temporary investments—Note D	461,194	35,114	363,752	460,950	296,766	202,597	1,820,373
Receivables:							
Accounts	29,054	-	18,504	-	134,393	951	182,902
Accrued interest	10,068	4,646	263,858	2,442	-	2,676	283,690
Loans—Note G	-	91,113	1,504,183	134,078	5,962	61,446	1,796,782
Lease rentals—Note G	-	-	-	-	-	6,774	6,774
Other	-	-	-	-	38,009	3,407	41,416
Due from primary government—Note H	7,400	-	-	-	57	2,255	9,712
Due from component units—Note H	-	30	-	51	-	-	81
Due from Federal government	-	-	100,624	3,426	-	20	104,070
Due from other governments	-	-	-	-	-	30	30
Inventory	16,679	-	-	-	13,927	298	30,904
Prepaid and deferred expenses	-	-	3,333	19,740	7,176	1,329	31,578
Other assets	-	24,043	128,430	-	9,977	5,869	168,319
Total current assets	654,864	904,116	2,531,082	621,086	596,047	634,567	5,941,762
Noncurrent assets:							
Long-term investments—Note D	544,855	361,749	70,673	-	922,083	48,855	1,948,215
Receivables (net):							
Loans—Note G	-	3,768,101	9,977,908	1,653,204	30,265	650,338	16,079,816
Lease rentals—Note G	-	-	-	-	-	8,380	8,380
Non-depreciable capital assets—Note E:							
Land	174,661	2,454	2,946	-	34,730	5,717	220,508
Construction in progress	1,194,364	-	-	-	236,634	8,548	1,439,546
Depreciable capital assets—Note E:							
Land improvements	58,831	-	-	-	155,464	3,797	218,092
Buildings and building improvements	666,087	29,647	72,451	-	1,435,994	141,302	2,345,481
Machinery and equipment	319,524	9,854	26,032	-	320,516	39,750	715,676
Turnpike infrastructure	4,362,098	-	-	-	-	-	4,362,098
Library books	-	-	-	-	80,351	485	80,836
Other capital assets	-	-	56,894	-	-	152	57,046
Less: accumulated depreciation	(3,344,628)	(6,544)	(84,639)	-	(732,917)	(102,326)	(4,271,054)
Net depreciable capital assets	2,061,912	32,957	70,738	-	1,259,408	83,160	3,508,175
Other assets	26,290	17,843	50,236	-	189,418	19,735	303,522
Total noncurrent assets	4,002,082	4,183,104	10,172,501	1,653,204	2,672,538	824,733	23,508,162
TOTAL ASSETS	4,656,946	5,087,220	12,703,583	2,274,290	3,268,585	1,459,300	29,449,924

STATEMENT OF NET ASSETS
Discretely Presented Component Units

June 30, 2007

COMMONWEALTH OF PENNSYLVANIA (Expressed in Thousands)	Pennsylvania Turnpike Commission (May 31, 2007)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	102,960	5,115	231,233	3,428	153,581	11,235	507,552
Securities lending obligations	-	-	-	46,184	-	3,990	50,174
Due to primary government—Note H	-	4	136	3,656	18,575	398	22,769
Due to component units—Note H	-	51	-	30	-	-	81
Interest payable	40,655	44,293	55,096	942	-	14,032	155,018
Unearned revenue	22,845	-	15,211	-	43,067	4,775	85,898
Notes payable—Note J	-	-	960,919	-	-	382	961,301
Bonds payable—Note K	-	-	-	-	30,694	-	30,694
Revenue bonds payable—Note K	52,645	164,693	-	13,100	-	52,350	282,788
Self insurance	2,262	-	-	-	-	-	2,262
Compensated absences	9,001	-	1,292	274	11,845	471	22,883
Other financing obligations—Note J	-	-	4,849	-	-	-	4,849
Other liabilities	-	24,073	128,430	-	186,953	382	339,838
Total current liabilities	230,368	238,229	1,397,166	67,614	444,715	88,015	2,466,107
Non-current liabilities:							
Due to primary government—Note H	-	-	-	92,769	-	-	92,769
Unearned revenue	-	-	-	-	3,900	-	3,900
Demand revenue bonds payable—Note J	-	-	9,089,176	-	-	-	9,089,176
Notes payable—Note J	-	-	1,547,106	-	69,518	26,840	1,643,464
Bonds payable—Note K	-	-	-	-	571,606	-	571,606
Revenue bond payable—Note K	2,631,488	3,811,863	-	47,760	517,740	988,518	7,997,369
Other financing obligations—Note J	-	-	182,874	-	-	-	182,874
Compensated absences	7,346	-	15,945	-	79,944	1,978	105,213
Self insurance	16,308	-	-	-	-	-	16,308
Other liabilities	11,288	325,391	1,546	-	616,199	12,615	967,039
Total non-current liabilities	2,666,430	4,137,254	10,836,647	140,529	1,858,907	1,029,951	20,669,718
TOTAL LIABILITIES	2,896,798	4,375,483	12,233,813	208,143	2,303,622	1,117,966	23,135,825
NET ASSETS—Note C:							
Invested in capital assets, net of related debt	772,709	15,456	(606)	-	504,112	46,557	1,338,228
Restricted for:							
Smoking cessation and other health-related programs	-	-	-	-	-	3,000	3,000
Transportation	255,444	-	-	-	-	-	255,444
Capital projects	731,995	-	-	2,066,147	29,629	575	2,828,346
Debt service	-	83,060	346,771	-	-	6,993	436,824
Economic stimulus	-	-	-	-	-	72,251	72,251
Other purposes	-	613,221	123,605	-	431,222	33,954	1,202,002
Unrestricted	-	-	-	-	-	178,004	178,004
TOTAL NET ASSETS	$ 1,760,148	$ 711,737	$ 469,770	$ 2,066,147	$ 964,963	$ 341,334	$ 6,314,099

- The notes to the financial statements are an integral part of this statement. -

STATEMENT OF ACTIVITIES
Discretely Presented Component Units *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pennsylvania Turnpike Commission (May 31, 2007)	Pennsylvania Housing Finance Agency	Pennsylvania Higher Education Assistance Agency	Pennsylvania Infrastructure Investment Authority	State System of Higher Education	Nonmajor Discretely Presented Component Units	Total
Expenses	$ 703,684	$ 535,457	$ 1,458,706	$ 39,577	$ 1,787,739	$ 263,921	$ 4,789,084
Program revenues:							
Charges for goods and services	608,444	223,362	933,036	26,589	956,259	44,583	2,792,273
Operating grants and contributions	97,094	356,083	497,213	34,969	912,043	149,677	2,047,079
Capital grants and contributions	24,306	-	-	104,233	32,707	10,654	171,900
Total program revenues	729,844	579,445	1,430,249	165,791	1,901,009	204,914	5,011,252
Net (expense) revenue	26,160	43,988	(28,457)	126,214	113,270	(59,007)	222,168
General revenues:							
Taxes and other general revenues	67,071	-	-	-	-	-	67,071
Change in net assets	93,231	43,988	(28,457)	126,214	113,270	(59,007)	289,239
Net assets, July 1, 2006 (restated)—Note B	1,666,917	667,749	498,227	1,939,933	851,693	400,341	6,024,860
Net assets, June 30, 2007	$ 1,760,148	$ 711,737	$ 469,770	$ 2,066,147	$ 964,963	$ 341,334	$ 6,314,099

- The notes to the financial statements are an integral part of this statement. -

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NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The basic financial statements of the Commonwealth of Pennsylvania have been prepared in accordance with accounting principles generally accepted in the United States applicable to governments. The Governmental Accounting Standards Board (GASB) establishes accounting and financial reporting requirements for governments.

Government-Wide Financial Statements

Government-wide financial statements report financial position and results of activities for the Commonwealth of Pennsylvania as a whole. Separate columns are presented for governmental and business-type activities within the primary government (defined below) and discretely presented component units. The Statement of Net Assets reports all economic resources (assets) and all liabilities for the primary government of the Commonwealth. The Statement of Activities reports the total cost of providing governmental services, by function, net of related program revenues, and, after including general revenues, reports whether the total net assets of the government increased or decreased during the fiscal year ended June 30, 2007. The government-wide financial statements do not include any fiduciary fund assets, liabilities or activities for the primary government or component units (defined below) that are fiduciary in nature. Governmental activities within government-wide financial statements include specific balances and transactions related to Internal Service Funds that are reported as proprietary funds in fund financial statements. Business-type activities include information for all Enterprise Funds.

Financial Reporting Entity

Government-wide financial statements include separate columns and/or rows for the primary government and discretely presented component units. Fiduciary component unit balances are reported in the Statement of Fiduciary Net Assets and combining statements for all discretely presented component units are presented following fund financial statements as a Statement of Net Assets and a Statement of Activities.

Primary Government: For financial reporting purposes, the Commonwealth of Pennsylvania is a primary government (PG). The PG includes all publicly elected members of the executive, legislative, and judicial branches of the Commonwealth. The PG also includes all Commonwealth departments, agencies, boards, and organizations that are not legally separate.

Component Units: In addition to the PG, the financial reporting entity includes discretely presented component units. Component units include all legally separate organizations for which the PG is financially accountable, and other organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the financial statements to be misleading or incomplete. The criteria used to define financial accountability includes appointment of a voting majority of an organization's governing body and (1) the ability of the PG to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. Fiscal dependency is also considered. The following organizations are included in the financial reporting entity as component units, either by discrete presentation or as a Fiduciary Fund:

State Employees' Retirement System (SERS) (Fiduciary Fund) - The SERS is a public employee retirement system that covers Commonwealth employees. The PG appoints all voting board members and, on a very limited basis, imposes its will on the SERS. The PG uses the SERS to provide pension benefits to PG employees. The PG makes essentially all employer contributions to the SERS; PG employees make almost all of the employee contributions to the SERS (virtually all PG employees are required to join the SERS). The PG is responsible for all of the SERS pension obligations. The SERS provides services and benefits almost exclusively to the PG. The SERS administers both a defined benefit plan and a defined contribution plan. The defined benefit plan is funded through a combination of employee contributions, employer contributions and investment earnings. The defined contribution plan is funded by voluntary employee contributions and investment earnings. The SERS is reported for its fiscal year ended December 31, 2006.

State Public School Building Authority (SPSBA) and Pennsylvania Higher Educational Facilities Authority (PHEFA) - The SPSBA and the PHEFA issue limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts and public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the schools. The PG appoints all nine voting members of the SPSBA and the PHEFA governing boards; nine high-ranking members of the PG serve as ex-officio members of each board. As a result, the PG is able to impose its will. The PG's Department of Education approves the SPSBA projects (which indicates imposition of will and fiscal dependency). Neither the PG nor the Authorities are obligated for debt service payments (beyond lease/loan payments from schools).

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Ben Franklin Technology Development Authority (BFTDA) - Similar to the predecessor Ben Franklin/IRC Partnership, the BFTDA promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the BFTDA, also increase Pennsylvania business competitiveness. The BFTDA works closely with the Department of Community and Economic Development (DCED) and includes a Revolving Loan Program. The PG appoints all 21 voting members of the governing board. The PG may appropriate funding for the BFTDA from the **General Fund**.

Port of Pittsburgh Commission (PPC) - The PPC promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities. The PG appoints all 15 voting members of the governing board and can remove board members at will. The PG provides funding for the PPC but is not required to do so.

Insurance Fraud Prevention Authority (IFPA) - The IFPA assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards. The PG appoints six of seven voting members of the IFPA governing board; the Attorney General serves ex-officio as one of these six members. A significant portion of IFPA expenditures funds the Section on Insurance Fraud in the Office of Attorney General; this indicates a financial benefit/burden. The IFPA is not fiscally dependent on the PG.

Philadelphia Shipyard Development Corporation (PSDC) - The PSDC was created as a nonprofit corporation to assist the PG and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. The PSDC obtains funding from the PG and a variety of other governmental sources to fund development, construction and job recruitment and training costs. The PG appoints three of five voting board members and provides a significant portion of funding for the PSDC. The PSDC is reported for its fiscal year ended December 31, 2006.

Philadelphia Regional Port Authority (PRPA) - The PRPA operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania. The PRPA charges rental and other fees to port users and obtains other funding from the PG. The PRPA also issues revenue bonds to finance its activities. The PG appoints all eleven voting board members and can remove board members at will. The PG provides operating and capital subsidies and pays rent in amounts equal to PRPA debt service requirements. The PRPA is fiscally dependent on the PG, as the Governor must approve the issuance of its debt.

Pennsylvania Higher Education Assistance Agency (PHEAA) - The PHEAA makes grants and loans to students to help fund the cost of higher education. Lending institutions and post-secondary schools are involved in the loan program. The PG funds the PHEAA grant program; the PHEAA issues revenue bonds to fund the student loan program. Revenue bonds are repaid from student loan repayments. The PHEAA also services student loan portfolios for lending institutions. The PG appoints all 20 voting board members but does not significantly impose its will on the PHEAA. A significant PG financial burden exists through subsidizing the grant program; also, although the PG is not obligated for the PHEAA revenue bonds, the PG could take certain actions to satisfy bondholders. The PHEAA is fiscally dependent, as the Governor must approve the issuance of its debt.

Pennsylvania Housing Finance Agency (PHFA) - The PHFA makes loans to eligible individuals and organizations to purchase or construct housing. The loans benefit older adults, persons of modest means, persons with disabilities, and low and moderate-income individuals and families. The PG appoints all voting board members; four of the fourteen members may be removed at will. The Secretary of Banking, the Secretary of Community and Economic Development, the Secretary of Public Welfare, and the State Treasurer serve as ex-officio members. The Governor is required to request an appropriation from the General Assembly for the PHFA whenever a deficiency exists in the capital reserve account or if additional funds are needed to avoid a default on the PHFA debt. This represents a PG moral obligation for the PHFA debt. The Governor must approve the issuance of the PHFA debt.

Patient Safety Trust Authority (PSTA) - The PSTA is charged with taking steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities and birthing centers. The Board of Directors has 11 members: the Pennsylvania Physician General, who serves as the Board chair, six members appointed by the Governor representing specific professional occupations, and four members appointed by the General Assembly. The Pennsylvania Department of Health determines whether or not PSTA recommendations will be adopted, establishing PG imposition of will; further, the enabling legislation limits the amount of assessments PSTA charges medical facilities to fund PSTA activities.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pennsylvania Industrial Development Authority (PIDA) - The PIDA collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas or assist specific companies. Loans are made at lower-than-market interest rates; the interest rates are based on local unemployment and other economic conditions. The PIDA issues revenue bonds to finance the loan program. Loan repayments are used for debt service payments. The PIDA operates closely with the DCED. The PG appoints all voting board members and is able to impose its will on the PIDA. The PG has provided contributed capital; "excess" PIDA funds are transferred to the **General Fund**. The PG is not obligated for the PIDA debt, but the PG could take certain actions to satisfy bondholders.

Pennsylvania Infrastructure Investment Authority (PENNVEST) - The PENNVEST makes grants and low-interest loans to local governments and authorities, businesses and nonprofit organizations for the construction, improvement, repair or rehabilitation of drinking and waste water systems. The PENNVEST obtains funds through Commonwealth general obligation bond proceeds (approved by referendum), revenue bonds, the Federal government and contributed amounts from Commonwealth funds. Loan repayments finance the PENNVEST debt service costs. The PENNVEST operates closely with the Department of Environmental Protection. The PG appoints all voting board members; there are limitations on three of the thirteen appointments. By issuing general obligation debt and providing the proceeds to the PENNVEST as contributed capital, the PG creates a significant financial burden. The PG is not obligated for the PENNVEST debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of the PENNVEST revert to the Commonwealth.

Pennsylvania Turnpike Commission (PTC) - The PTC was created to construct, maintain and operate a turnpike system in the Commonwealth. Activities are financed through user tolls and the issuance of revenue bonds. Debt service payments are funded through user tolls. The PTC works closely with the Department of Transportation. The PG appoints all voting members. When all the PTC bondholders have been satisfied, the PTC assets revert to the Department of Transportation. The Governor must approve the issuance of all PTC debt. The PG is not obligated for PTC debt, but the PG could take certain actions to satisfy bondholders. The PTC is reported for its fiscal year ended May 31, 2007.

State System of Higher Education (SSHE) - The SSHE was created to provide instruction for postsecondary students. The SSHE is composed of fourteen universities and an administrative headquarters. Resources are provided by student tuition, grants and PG subsidies. The PG appoints all 20 voting board members, which in turn appoint the university presidents and chancellor. Five of the appointments must be trustees of universities; three must be students. The PG provides significant operating and capital subsidies to the SSHE. The PG is not obligated for the SSHE debt, but the PG could take certain actions to satisfy bondholders.

Commonwealth Financing Authority (CFA) - The CFA administers and funds economic stimulus programs; the programs offer financial assistance through loans, grants, guarantees, sales, leases, investments, lines and letters of credit, and other authorized financial arrangements. The PG appoints the four voting members of the Board of Directors and may remove these members at will. The Secretary of Community and Economic Development, Secretary of the Budget, and Secretary of Banking serve as ex-officio members of the Board. The CFA is authorized to issue limited obligation revenue bonds and other types of limited obligation revenue financing. The bonds are payable solely from CFA revenues or funds appropriated to the CFA by the Commonwealth. While the enabling legislation provides that CFA bonds are not a debt or obligation of the Commonwealth, it is anticipated that **General Fund** appropriations will be required to support the annual debt service cost on CFA debt. The CFA is fiscally dependent on the PG, as the Secretary of the Budget must certify that the **General Fund** can support any appropriations needed to pay the debt service payments or costs incurred in any bond issuance.

Thaddeus Stevens College of Technology (College) - Founded in the early twentieth century, the College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003. Legislation effective July 1, 2003 amended the Board of Directors to a body politic and corporate constituting a public corporation, making the College an entity legally separate from the PG. The Governor, with the advice of the Senate, appoints nine members of the Board, and the Secretary of Education serves as an ex-officio member. Although the PG selects the members of the Board, the members have great latitude to manage the College subsequent to their appointment. The PG has some ability to influence the structure or content of the College's budget through overview of the Department of Education. The College presents a financial burden to the PG, as the PG appropriates monies for College operations.

Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) (Fiduciary Fund) - The PLHIGA was created to protect insurance policy owners, insured persons, beneficiaries, annuitants, payees and assignees of direct non-group life, health, annuity and supplemental policies or contracts from potential insurer failure due to the impairment or insolvency of the insurer. The PLHIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PLHIGA is also authorized to assist the Pennsylvania Insurance Commissioner in the prevention and detection of

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

insurer impairments or insolvencies. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PLHIGA. There is a minor financial burden on the PG. The PLHIGA is reported for its fiscal year ended December 31, 2006.

Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) (Fiduciary Fund) - The PPCIGA was created to provide for the payment of insured property and casualty policy claim losses and to avoid losses to claimants or policyholders as a result of insurer insolvency. The PPCIGA guarantees the payment of insurance benefits and continuation of coverage by assessing member insurers. The PG has appointment approval authority for all governing board members and the Insurance Commissioner has broad authority to impose will on the PPCIGA. There is a minor financial burden on the PG. The PPCIGA is reported for its fiscal year ended December 31, 2006.

Public School Employees' Retirement System (PSERS) (Fiduciary Fund) - The PSERS was created to administer and provide pension benefits to public school employees in Pennsylvania. The PSERS covers almost all such employees. Covered elementary and secondary school employers make employer contributions with the PG reimbursing each employer at least half their required annual contribution. Employer contributions for covered employees of higher education institutions and covered employers and the PG share state-owned schools equally; all covered public school employees also contribute. The PG appoints eight of fifteen voting board members; the seven other members are appointed by active or retired public school employees or are appointed by public school boards. In addition to making significant contributions to the PSERS, the PG guarantees the payment of all annuities and other pension benefits. This represents a compelling PG financial burden.

Pennsylvania Economic Development Financing Authority (PEDFA) - The PEDFA was created to lend money primarily to businesses to promote economic development in the Commonwealth. The PEDFA issues revenue bonds to fund specific projects only and repayments are derived solely from project revenues. The debt is considered non-recourse, as the Authority is not obligated to bondholders beyond amounts received by the Authority from the funded projects. Financial statement information for the PEDFA is not reported because its only activity involves conduit debt. The PG appoints all sixteen board members; five members are ex-officio. The PG is not obligated for the PEDFA debt, but the PG could take certain actions to satisfy bondholders. Upon dissolution, the assets of PEDFA revert to the Commonwealth.

Pennsylvania Energy Development Authority (PEDA) - The PEDA was created to promote the development of energy sources within the Commonwealth. The PEDA issued revenue bonds and lent the proceeds to fund four specific projects. Loan repayments are derived solely from project revenues. The debt is considered non-recourse, as the PEDA is not obligated to bondholders beyond amounts received from the funded projects. The PEDA has not issued any debt since 1990. Financial statement information for the PEDA is not reported because its only significant economic activity involves conduit debt. The PG appoints all 19 board members; six members are ex-officio. The Governor must approve the issuance of Authority debt. The PG is not obligated for the PEDA debt, but the PG could take certain actions to satisfy bondholders. The PEDA board reviewed and approved funding for certain alternative energy grant applications during the fiscal year ended June 30, 2007.

Financial Statements for Component Units and Investment Trust Fund

Audited financial statements for component units are available by writing to the Commonwealth Comptroller, 303 Walnut Street, Sixth Floor, Verizon Tower, Harrisburg, PA 17101. The Commonwealth sponsors the INVEST Program for Local Governments, an external investment pool, which is reported as an Investment Trust Fund. Audited financial statements for that Program are also available through the Commonwealth Comptroller.

Related Organizations

The Commonwealth created the **Pennsylvania Municipal Retirement System** (PMRS). The PG appoints all eleven governing board members but is not financially accountable, as there is no imposition of will, no financial benefit/burden, nor fiscal dependency associated with the PMRS. Local governments are the only participants in the PMRS. Participation is voluntary and there are variations among different municipal pension plans. Local participating governments are financially responsible only for their own plan obligations. The Commonwealth provides accounting services to the PMRS on a cost reimbursement basis.

The Commonwealth also created the **Automotive Theft Prevention Authority** (ATPA). The PG appoints all seven governing board members but is not financially accountable due to a lack of imposition of will and no financial benefit/burden. The

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ATPA is not fiscally dependent on the PG. The operation of the ATPA is funded by an annual assessment paid by companies providing automobile insurance in the Commonwealth. The PG processes cash receipts and disbursements for the ATPA.

The **Philadelphia Parking Authority** (Authority) is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. Act 22 of 2001 provided, in part, for the Commonwealth to appoint a voting majority of the Authority's governing board. The Act provided for an increase from five to eleven board members; the Commonwealth appointed six new members by June 30, 2001. Effective June 30, 2006, the terms of board members appointed prior to June 2001 expired. No replacement appointments for those positions were made, pursuant to the provisions of the Act. Beginning June 1, 2006, the board consists of the six members appointed in 2001, whose terms expire in 2010, 2011 and 2012.

The **Philadelphia School District** (School District) is financially reported as a discretely presented component unit in the City of Philadelphia's (City) financial reporting entity. During 2001, the General Assembly passed Senate Bill 640 that provided, in part, for several changes to the Public School Code. Among other things, the changes provide for the Commonwealth to appoint a voting majority of the School Reform Commission that now governs the School District. Despite these changes, the School District remains fiscally dependent on the City.

Joint Venture

The Commonwealth, through its Office of Administration, created the Pennsylvania Employees' Benefit Trust Fund (PEBTF) using a contractual agreement with various Commonwealth employee labor unions. The PEBTF establishes and provides Commonwealth employee health and welfare benefits. A governing board administers the PEBTF; one-half of the board is appointed by the Commonwealth and one-half is appointed by the various unions. Neither the Commonwealth nor the unions control the governing board or the PEBTF; administration is jointly and equally shared. The Commonwealth and certain of its employees pay for the cost of providing benefits. Contribution amounts are based on the terms contained in collective bargaining agreements. Employee unions are not financially responsible for making contributions. Neither the Commonwealth nor the employee unions have an equity interest or any ongoing financial interest in the PEBTF. Aside from its obligation to make periodic, established contributions, the Commonwealth is not responsible for any obligations of the PEBTF.

Excluded Organizations

School districts, local governments and counties are considered separate, stand-alone primary governments because they are governed by popularly elected officials. Secondary vocational-technical schools, intermediate units and community colleges were considered as potential component units, but have been excluded from the financial reporting entity. These schools may receive significant PG operating and/or capital subsidies, but the PG does not appoint a voting majority of governing board members, nor does the PG impose its will on these organizations. Although various Commonwealth laws affect or strongly influence these organizations, the PG does not control day-to-day operating decisions. These organizations are not fiscally dependent. The PG appoints a portion, but not a voting majority, of the governing boards at the following four universities (commonly referred to as state related): Pennsylvania State University, University of Pittsburgh, Lincoln University and Temple University. The PG provides significant subsidies; however, given the absence of PG appointment of a governing board voting majority and the lack of fiscal dependency, these universities are excluded from the financial reporting entity.

Primary Government – Fund Structure

Fund Accounting: In governmental accounting, a fund is defined as an independent fiscal and accounting entity, with a self-balancing set of accounts, recording cash and/or other resources together with all related liabilities and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with the fund's special regulations, restrictions or limitations. In the Commonwealth, funds are established by legislative enactment or, in certain rare cases, by administrative action.

The fund financial statements include: three major governmental funds and total nonmajor governmental funds; four major enterprise funds and total nonmajor enterprise funds; and all fiduciary funds. The Commonwealth uses the following fund categories to account for each fund included in the primary government:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

General Fund—Accounts for all financial resources except those required to be accounted for in another fund.

The **General Fund** is the Commonwealth's main operating fund and is reported as a Major Fund. Other Major Funds are displayed in bold print in the Notes to the Financial Statements.

Special Revenue Funds—Account for the proceeds of specific revenue sources (other than debt service or capital projects funds) that are legally restricted to expenditures for specified purposes. The **Motor License Fund** and the **Tobacco Settlement Fund** are reported as Major Funds.

The **Motor License Fund** receives revenues from liquid fuels taxes, licenses and fees on motor vehicle registrations and operating privileges, aviation fuel taxes, federal aid for highway and aviation purposes, contributions from local subdivisions for highway projects and other miscellaneous revenues. The Fund makes expenditures for highway and bridge improvement, design, maintenance, and purchases of rights-of-way, as well as aviation activities and transportation licensing and safety activities. It also finances State Police highway patrol operations and pays subsidies to local subdivisions for construction and maintenance of roads.

The **Tobacco Settlement Fund** was originally established to deposit all payments received by the Commonwealth pursuant to the Master Settlement Agreement with tobacco product manufacturers. Deposits into this fund include: jurisdictional payments received by the Commonwealth from the master agreement, strategic contribution payments from the master agreement, quarterly payments from certain Pennsylvania health insurance companies and earnings from investments. Expenditures from this fund are determined by the annual budget appropriated to each program. For the fiscal year ended June 30, 2007 payments from the Master Settlement agreement were distributed as follows: 8 percent to the Health Endowment Account; 13 percent for Home and Community Based Services; 9 percent for Tobacco Use Prevention and Cessation; 19 percent for Health Related Research; 10 percent for Uncompensated Care; 26 percent for Health Investment Insurance; 8 percent for the expansion of the PACENET Program and 7 percent for various health-related programs. Amounts received from the Pennsylvania health insurance companies are held in a restricted account and used exclusively for Department of Insurance initiatives.

Debt Service Funds—Account for the accumulation of resources, principally transfer from other funds, for the payment of general long-term debt principal and interest. There are no major debt service funds.

Capital Projects Funds—Account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations (other than those financed by Proprietary or Fiduciary Funds). There are no major capital projects funds.

Proprietary Funds

Enterprise Funds—Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges. The **State Lottery Fund, State Workers' Insurance Fund, Unemployment Compensation Fund** and **Tuition Payment Fund** are all reported as Major Funds.

The **State Lottery Fund** provides for the operation of the Pennsylvania State Lottery and for programs to support older Pennsylvanians. Revenues are derived from the sale of lottery tickets, interest earned on securities and deposits, unclaimed prize monies and Federal grants. Fund expenses pay for prizes to holders of winning lottery tickets and commissions to local lottery agents. Amounts remaining after payment of lottery prizes and commissions are used to fund programs benefiting older Pennsylvanians including PENNCARE, PACE, PACENET, free mass transit and reduced fare shared-ride programs, and property tax and rent rebates.

The **State Workers' Insurance Fund** (SWIF) was created by legislation on June 2, 1915 and operates within the Department of Labor and Industry. It is a self-sustaining fund providing workers' compensation insurance to employers, including those who are refused policies by private insurance firms. SWIF is subject to underwriting rules, classifications and rates promulgated by rating bureaus authorized by the Commonwealth Insurance Commissioner. Premium rates are established by the bureaus based on the history of accidents by industry classification. Revenues are generated by premiums charged to policyholders plus investment income. Workers' compensation payments and administration costs are paid from the Fund. The **State Workers' Insurance Fund** is reported for its fiscal year ended December 31, 2006.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The **Unemployment Compensation (UC) Fund** is comprised of four basic components: the Employer Contribution Fund, the UC Benefit Payment Fund, the Special Administration Fund, and the UC Trust Fund in Rockville, MD. The purpose of these funds is to collect employer assessments for UC and transfer the assessments to the Federal government for deposit in the UC Trust Fund. As needed, these funds are drawn back to pay unemployment compensation payments to claimants. The Special Administration Fund is used to isolate penalty and interest charges from employers and claimants. It is used to supplement grant-funding shortfalls and pay audit disallowances with any remaining amounts over $200 thousand being transferred to the UC Trust Fund each June 30. The UC Benefit Payment Fund also receives funds from the Federal government to reimburse Pennsylvania for those Federal workers who collected UC benefits from Pennsylvania.

The **Tuition Payment Fund** offers a college savings program with a guaranteed rate of return based on increases in the cost of tuition. The program is administered by the Tuition Account Program Bureau within the Treasury Department with oversight by the Tuition Account Program Advisory Board. Revenue is derived primarily from application fees, participant contributions and investment income. Fund expenses consist mainly of payments to educational institutions and administrative costs.

The State Stores Fund is reported for its fiscal year ended June 26, 2007.

Internal Service Funds—Account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis. The Purchasing Fund is used to purchase materials, supplies, services, and equipment for use by departments, agencies, boards, and commissions of state government, and to pay costs associated with administering the fund. The fund receives reimbursements from the various Commonwealth departments, boards, and commissions for the materials, services, and supplies they obtain from appropriations and periodic loans from the **General Fund**, from the sale of vehicles and unserviceable property and from interest earned on securities. The Manufacturing Fund is a fund that uses inmate labor to produce items for the Department of Corrections and other state agencies. The revenue source is the sale of items produced or services provided. Expenses are for raw materials, inmate labor, and general and administrative costs.

Fiduciary Funds

Trust and Agency Funds—Account for assets held by the Commonwealth in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include Pension (and other employee benefit) Trust Funds, an Investment Trust Fund, a Private Purpose Trust Fund and Agency Funds.

The State Employees' Retirement System, a pension trust fund, is a component unit and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries. The Deferred Compensation Fund is an other employee benefit pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

The INVEST Program for Local Governments is an Investment Trust Fund that invests amounts owned by local governments and school districts. The Tuition Account Investment Program is a Private Purpose Trust Fund that invests amounts on behalf of participants who are saving for college tuition costs.

The largest Agency Fund, the Statutory Liquidator Fund, converts the remaining assets of insolvent insurance companies to cash for remittance to policyholders, creditors and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a Commonwealth Court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders and stockholders. The Underground Storage Tank Indemnification Fund holds assets on behalf of owners and operators of underground storage tanks who incur a liability for taking corrective actions associated with underground storage tank releases. The Municipal Pension Aid Fund holds a portion of casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire fighter pension costs.

The State Employees' Retirement System, a pension trust fund, the Deferred Compensation Fund, an other employee benefit trust fund, and the INVEST Program for Local Governments, an Investment Trust Fund, are reported for their fiscal years ended December 31, 2006.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting- Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. This means that the Statement of Net Assets reports all assets (including receivables regardless of when collected and capital assets, such as heavy trucks, highways and bridges) and liabilities regardless of when payment is due. The Statement of Activities includes all revenues and expenses, regardless of when cash is respectively received or paid. The Statement of Activities reports program revenues, which are revenues derived directly from a specific governmental function and are reported by the function, which generates the revenue. Charges for goods or services, most investment income, grant revenues and fines are reported as program revenues. Neither program revenues nor expenses are reported for donated works of art, historical treasures or similar assets received during the fiscal year because such donations are not material. Except for unemployment compensation tax revenues, which are reported as charges for sales and services program revenues, all tax revenues are classified as general revenues in the Statement of Activities. The Statement of Activities also reports governmental activities expenses that include governmental fund expenditures (those which are not eliminated or reclassified) and current year depreciation on capital assets, which recognizes the cost of ordinary use of the assets over their estimated useful lives. The costs of most employee benefits earned during the fiscal year (such as vacation time earned) and increases in self-insurance liabilities are also reported as expenses in the statement, regardless of when the benefits are used or the liabilities are paid.

Measurement Focus and Basis of Accounting – Fund Financial Statements

Governmental Funds

The **General Fund**, special revenue, debt service and capital projects funds (governmental funds) are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are normally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Unreserved fund balance represents a measure of available, spendable resources. Under the modified accrual basis of accounting, revenues of governmental funds are recognized in the year that they become susceptible to accrual (both measurable and available) to pay current fiscal year liabilities. The Commonwealth accrues the following major revenue sources that are both measurable and available (available is treated as being received within 60 days of fiscal year end for these revenues): sales and use taxes, cigarette taxes, corporation taxes, personal income taxes, liquid fuels taxes, inheritance taxes, liquor taxes, investment income, institutional revenues and sales of goods and services.

Grant revenues, including Federal government grant revenues, are recognized when earned. Revenues from most other sources are recognized when received. Expenditures are generally recognized in the fiscal year the goods or services are received and the related fund liability is incurred. Debt service expenditures for principal and interest on general long-term obligations are recognized when due. Prepaid items and inventory purchases are reported as current fiscal year expenditures, rather than allocating a portion of related cost to the fiscal year when the items are actually used. Expenditures for claims, judgments, compensated absences and employer pension contributions are reported as the amount accrued during the fiscal year that normally would be liquidated with expendable available financial resources.

Proprietary Funds, Pension (and other employee benefit) Trust Funds and Investment Trust Fund

The enterprise, internal service (proprietary funds), pension (and other employee benefit) trust funds and the investment trust funds, are reported using the economic resources measurement focus and the accrual basis of accounting. Under this measurement focus, all assets and liabilities associated with the operations of these funds are included on the Statement of Net Assets. Under the accrual basis of accounting, revenues are recognized in the fiscal year earned and expenses are recognized in the fiscal year incurred.

Proprietary Funds classify revenues and expenses as either 'operating' or 'nonoperating', depending on the nature of the activities reported in the individual Fund. The majority of transactions are reported as 'operating'; however, investment income is reported as 'nonoperating' revenues by all Proprietary Funds. Under the Governmental Accounting Standards Board's (GASB) Statement 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Commonwealth has elected not to adopt the Financial Accounting Standards Board pronouncements issued after November 30, 1989.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Agency Funds

Assets and liabilities of agency funds are reported using the accrual basis of accounting. Agency funds do not report operating statements.

Significant Accounting Policies

Pooled Cash: In accordance with the Fiscal Code, cash balances of most Commonwealth funds are pooled by the Treasury Department. Cash balances are segregated by fund, but accounted for centrally for receipt and disbursement purposes. The law requires that collateral be pledged by banks and other financial institutions to guarantee the Commonwealth's cash on deposit.

Cash Equivalents: No investments that could be defined as cash equivalents have been treated as such on the Statement of Cash Flows; therefore, only net changes in cash are displayed.

Investment Pools: The Fiscal Code provides the Treasury Department with investment control over most Commonwealth funds. The Treasury Department uses a variety of sophisticated internal investment pools that seek to provide preservation of principal, liquidity, diversification and income for Commonwealth funds. All participating funds report amounts invested in such pools as temporary and/or long-term investments; the pools themselves are not financially reported. The Treasury Department maintains an external investment pool, the INVEST Program for Local Governments, which separately issues audited financial statements and is reported as an Investment Trust Fund. Financial statements for the INVEST Program include a Statement of Net Assets and a Statement of Changes in Net Assets prepared using the economic resources measurement focus and the accrual basis of accounting.

Temporary Investments: The Treasury Department manages the Treasury Investment Program (TIP); practically all individual funds that are part of primary government are participants in the TIP. The Treasury Department accounts for each participating fund's equity (considered "shares") in the TIP on a daily basis. "Share" balances of participating funds fluctuate considerably during the fiscal year, based on the timing of cash receipts and disbursements in the participating fund, and are reported as temporary investments. The TIP is considered an internal investment pool. Periodic TIP earnings are allocated to specific participating funds based on either the weighted daily average share balance or the net asset value on redemption date combined with share balances on declaration date.

Several individual funds may directly own investments in specific securities. Such investments, which are expected to be realized in cash within twelve months after fiscal year end or less, are reported as temporary investments. Temporary investments are reported at fair value (typically using published market prices) except for nonparticipating interest-bearing contracts, which are reported at cost.

Long-Term Investments: Investments expected to be realized in cash after more than twelve months from fiscal year end are reported as long-term investments. Such investments are generally not managed by the Treasury Department. Long-term investments are reported at fair value, except for certain nonparticipating interest-bearing contracts, which are reported at cost. Fair values are based on published market prices, quotations from national securities exchanges and securities pricing services, or by the respective fund managers for securities that are not actively traded. Certain pension trust fund investments, including real estate, venture capital, private equity, private placements and alternative investments are valued based on appraisals, independent advisors or the present value of projected future income.

Investment Income: Investment income includes interest, dividends, realized gains and losses and the change in the fair value of investments, if any, during the fiscal year. Certain investment income from specific funds' investments is assigned to another fund and is reported by the receiving fund if the income is transferred for legal or contractual reasons; otherwise, the investment income is reported as a transfer by the receiving fund. Specific fund disclosures for assigned investment income are provided in Note H.

Grants: Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental revenues when entitlement occurs. Federal reimbursement-type grant revenues are recorded when the related expenditures or expenses are incurred.

Inventories and Prepaid Expenses: Inventories of operating materials and supplies are reported by certain governmental activities and operating and merchandise inventories are reported by Proprietary Funds and the State System of Higher Education, a discretely presented component unit. Operating materials and supplies inventories are valued at cost (first-in,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

first-out) and merchandise inventories are reported at the lower of cost or market. In the governmental fund financial statements, inventories are accounted for using the purchases method whereby expenditures are reported for current-year purchases of operating materials and supplies. Also, in governmental fund financial statements, prepaid expenses are not reported.

Capital Assets and Depreciation: General capital assets (including infrastructure) and other capital assets are reported at cost or estimated historical cost in the Statement of Net Assets. Donated capital assets are reported at fair market value at the time of donation. The cost of all land is reported; for other types of capital assets, the following minimum dollar reporting thresholds are used (in thousands):

Land improvements, buildings and building improvements….	$25
Machinery and equipment	$25
Highway and bridge infrastructure	$100
All other infrastructure	$25

Commonwealth agencies maintain inventories of all their respective capital assets, including assets acquired for less than the above minimum amounts, which are not reported in the Basic Financial Statements. Certain waterway and other non-highway institutional infrastructure acquired prior to July 1, 2001 are not reported in the Statement of Net Assets. The Pennsylvania Historical and Museum Commission (PHMC) owns diverse collections of historical, architectural, prehistoric and artistic artifacts, archives and manuscripts and scientific specimens. The Commonwealth does not capitalize these collections, as they meet the following criteria: PHMC's mission in acquiring these collections is for the purpose of preservation, education, research and exhibition; PHMC secures and preserves all collections in order to adequately preserve Commonwealth history; and all acquisitions and deaccessions must be approved by the PHMC Collections Committee and the PHMC Executive Director. All amounts received from the deacessioning of artifacts/collections are placed in a restricted account that can only be used for the purchase of new artifacts/collections. The Commonwealth does not capitalize expenditures for software or expenditures to protect farmland under the Agricultural Area Security Law. Capital assets (excluding land and construction in progress) are depreciated over the estimated useful lives of major capital asset classes using the straight-line method. Depreciation expense is reported in the Statement of Activities as part of direct functional expenses; all depreciation is allocated to a specific function. Capital assets reported by proprietary funds are reported in those funds at cost or estimated historical cost. Depreciation is reported on the straight-line basis over the capital assets' estimated useful lives. The following useful lives are used for primary government governmental activities:

Buildings and building improvements.....	40 years
Improvements other than buildings	30 years
Machinery and equipment	10 years
Highway heavy equipment	15 years
Highway infrastructure.....	25 years
Bridge infrastructure	50 years
Dams, dikes and pier infrastructure.....	50 years
Other infrastructure	20 years

Primary government business-type activities report depreciation expense using useful lives that are very similar to the above and do not report any infrastructure. Certain land, buildings and improvements owned by the Commonwealth and used by the State System of Higher Education (SSHE), a discretely presented component unit, which were acquired or constructed before July 1, 1983 (the inception date for the SSHE), are financially reported as governmental activities general capital assets. All general capital assets acquired or constructed for the SSHE subsequent to June 30, 1983 without the use of university funds or incurrence of SSHE debt are also reported as governmental activities general capital assets. This reporting treatment is used to conform to the enabling legislation for the SSHE, which includes the vesting of title for the SSHE-used property. Capital assets reported by the SSHE are stated at cost. Depreciation of SSHE capital assets is recognized over the estimated useful life of the assets.

Capital Asset Impairments: Through a variety of policies, Commonwealth management requires agencies to perform periodic assessments of general and other capital assets. Beyond initial reporting (upon acquisition), agencies must adhere to continuing policies regarding usability, function and condition of reported capital assets. With few exceptions, reported capital assets are used by Commonwealth agencies on a daily or other periodic basis and agencies must report impairments promptly. In particular, Commonwealth highways and bridges are inspected on a frequent, scheduled basis. As a matter of public safety,

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

such assets are inspected very closely as part of routine operating procedures. Other general capital assets, such as structures, are used for housing or office space. Many pieces of equipment, including rolling stock, are used almost daily.

Self-Insurance: The Commonwealth is uninsured for property losses and self-insured for annuitant medical/hospital benefits, employee disability and tort claims. Note M provides disclosures for self-insurance liabilities.

Compensated Absences: Employees earn annual leave, depending on length of credited service, from between 2.7 percent to 10 percent of regular hours paid. Generally, a maximum of 45 days may be carried forward at the end of each calendar year. Employees are paid for accumulated annual leave upon termination or retirement.

Employees earn sick leave based on 5 percent of regular hours paid. Generally, a maximum of 300 days may be carried forward at the end of each calendar year. Retiring employees that meet service, age or disability requirements are paid in accordance with the following schedule:

Days Available at Retirement	Percentage Payment	Maximum Days Paid
0-100	30%	30
101-200	40%	80
201-300	50%	150
over 300 (in last year of employment)	100% of days over 300	13

Accumulated annual and sick leave liabilities payable with expendable available financial resources are reported by Governmental Funds; all compensated absences payable are reported by governmental activities and Proprietary Funds and Pension Trust Funds.

Liabilities: In the Statement of Net Assets, governmental activities liabilities are presented as either "current" or "noncurrent." Liabilities are segregated into these categories by establishing an average maturity for the liability class and classifying the portion due within one year of the statement date as current and the portion due beyond one year of the statement date as noncurrent. For liabilities without specific maturity or due dates, estimates are made of maturities. Liabilities without specific due dates include those related to self-insurance and compensated absences.

Pension Costs: The Commonwealth's policy is to fund pension costs incurred and to amortize prior service costs over varying periods not exceeding 20 years.

Indirect Expenses: In the Statement of Activities, the full-cost allocation treatment is used, whereby reported program expenses, by function, include any expenses which could be treated as indirect expenses of another function.

Interest Expense: In the Statement of Activities, no interest expense is reported by direct program costs.

Intergovernmental Revenues: These amounts represent revenues received principally from the Federal government.

Restricted Net Assets: These amounts were primarily determined based on enabling legislation that provides for restrictions on how the resources of special (non-**General Fund**) funds may be used. At June 30, 2007, a portion of governmental activities net assets was restricted based on a Federal government purpose restriction. Practically all reported restricted net assets could become unrestricted based on possible future legislative changes.

Budget Stabilization Reserve Fund: Act 91 of 2002 provided for this Fund effective July 1, 2002 to gradually provide a budgetary reserve amounting to 6 percent of the revenues of the **General Fund**. For the fiscal year beginning July 1, 2002 and in any fiscal year thereafter in which the Secretary of the Budget certifies that there is a surplus in the **General Fund**, 25 percent of the surplus is to be deposited by the end of the next succeeding quarter into this Fund. This requirement resulted in a transfer of $177.0 million to be deposited by the end of the next succeeding quarter for the fiscal year ended June 30, 2007; this transfer is included in the **General Fund** budgetary comparison schedule for the fiscal year ended June 30, 2007.

Tobacco Master Settlement Agreement Proceeds: In 1997, the Pennsylvania Attorney General began litigation in the Philadelphia court of common pleas against several defendant tobacco product manufacturers to recover specified damages.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Similar litigation was filed by many other states. In 1998, the Commonwealth joined in the Master Settlement Agreement which settled litigation against certain defendant manufacturers and 52 governmental entities, including Pennsylvania. As part of the settlement, the manufacturers agreed to remit periodic payments to the Commonwealth and other states in perpetuity. Amounts remitted are calculated based on a variety of specific settlement provisions; actual tobacco product sales are one key factor. The Agreement contains procedures for resolving disputes over payment or other issues that may arise. A dispute regarding the amount to be paid for cigarette sales that took place in 2003 is currently being litigated.

Due From Other Governments: This receivable represents amounts due primarily from the Federal government for various department programs.

Bond Proceeds, Bond Proceeds Premium/Discount and Bond Issuance Costs: In governmental fund financial statements, the face amount of bonds issued and related premium/discount are separately reported. Bond issuance costs are reported as expenditures. In government-wide financial statements, the face amount of bonds issued is reported as a liability and related premium/discount is amortized over the life of the outstanding debt and is reported as interest expense as part of functional governmental activities expenses. Bond issuance costs are reported as expenses.

Interfund Transactions: The Commonwealth has the following types of transactions between funds, between primary government governmental activities and business-type activities and between primary government and discretely presented component units:

Statutory Transfers—Legally required transfers from specific Funds that subsidize receiving Fund programs are reported when paid as "Transfers in" by the receiving Fund and as "Transfers out" by the disbursing Fund. Legally required payments from the primary government to component unit organizations are reported when paid as governmental activities program expenses and as either Operating Grants and Contributions or Capital Grants and Contributions by component unit organizations. Interfund balances (amounts due from/to other funds) are reported for unremitted, due and payable, transfers at fiscal year end. In the Statement of Activities, only transfers between governmental activities and business-type activities are reported as transfers.

Transfers of Expenditures (Reimbursements)—Reimbursement of expenditures made by one fund for another that are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Interfund Services Provided and Used—Charges or collections for services provided by one fund to another that are recorded as revenues of the recipient fund and expenditures or expenses of the disbursing fund are reclassified and treated as reimbursements (above) in fund financial statements and the Statement of Activities. Interfund balances (amounts due from/to other funds) are reported for unremitted charges or collections at fiscal year end that arise in connection with routine, ordinary governmental fund and proprietary fund operations.

Interfund balances: The composition of the Commonwealth's interfund receivables/payables at June 30, 2007 and transfers in/out during the fiscal year ended June 30, 2007 are presented in Note H. Interfund balances between two governmental funds or two proprietary funds are not reported in the Statement of Net Assets.

New Accounting Pronouncements – Adopted: Effective July 1, 2006 the Commonwealth adopted the Governmental Accounting Standards Board's (GASB's) Statement No. 47, "*Accounting for Termination Benefits*." GASB Statement No. 47 requires reporting termination benefit costs for involuntary terminations during the period the Commonwealth becomes obligated and for voluntary terminations when the termination offer is accepted. Implementation had no effect on the Commonwealth's financial statements during the fiscal year ended June 30, 2007 as no termination programs were in effect.

New Accounting Pronouncements – To Be Adopted: In June 2004 the GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*." GASB Statement No. 45 changes how other postemployment benefits (OPEB) costs are reported by employer governments, so that employer OPEB costs are charged during the periods when employees render services. Presently, OPEB costs for retiree healthcare benefits are reported as charged as a component of payroll expenditures to employing agencies in amounts expected to be sufficient to fund such benefits on a 'pay-as-you-go' basis. It is expected that reported expenses for OPEB would increase upon implementation. Actuarial valuations have been in process since early 2006; other steps necessary for implementation are being taken.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In September 2006, the GASB issued Statement No. 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*." GASB Statement No. 48 distinguishes between sales or collateralized borrowings when governments exchange their rights to future cash flows for immediate cash proceeds or other consideration. The new standard establishes new reporting and disclosure requirements for such transactions and balances.

In December 2006, the GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations*." GASB Statement No. 49 establishes recognition 'triggers,' any one of several obligating events, and requires governments to estimate expected outlays for pollution remediation costs at polluted sites. Liabilities and expenses are to be estimated using 'expected cash flows.'

In May 2007, the GASB issued Statement No. 50, "*Pension Disclosures*." GASB Statement No. 50 amends GASB Statement Nos. 25 and 27 (both related to pension plans) and provides for enhanced pension disclosures to be consistent with disclosure and required supplementary information requirements established by GASB Statement Nos. 43 and 45 (both related to OPEB).

In June 2007, the GASB issued Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*." GASB Statement No. 51 clarifies pertinent provisions of GASB Statement No. 34 which address capital asset reporting requirements. Among other things, the Commonwealth must begin to report such intangible assets as computer software, which are not presently capitalized and amortized over varying periods of time.

In November 2007, the GASB issued Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments*." GASB Statement No. 52 changes how permanent and term endowments, including permanent funds, report land and other real estate held as investments. The prior standard required reporting at historic cost; the new standard requires reporting at fair value, along with several disclosures.

The Commonwealth must adopt the new standards as follows:

GASB Statement No. 45	Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
GASB Statement No. 48	Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
GASB Statement No. 49	Effective July 1, 2008, for financial statements for the fiscal year ending June 30, 2009
GASB Statement No. 50	Effective July 1, 2007, for financial statements for the fiscal year ending June 30, 2008
GASB Statement No. 51	Effective July 1, 2009, for financial statements for the fiscal year ending June 30, 2010
GASB Statement No. 52	Effective July 1, 2008, for financial statements for the fiscal year ending June 30, 2009

NOTE B – ACCOUNTING CHANGE AND RESTATEMENTS

Primary Government – General Fund Employee Benefits Reclassification

Effective July 1, 2006 the Commonwealth changed the method used to report certain **General Fund** activities associated with Commonwealth employee benefit costs which are charged to Commonwealth agencies on a biweekly basis. Such activities were formerly reported as part of **General Fund** revenues (Charges for sales and services) and expenditures (Direction and supportive services); for the fiscal year ended June 30, 2006 such previously reported **General Fund** revenues ($2,750,226) and expenditures ($2,062,113) would have been $1,336,185 and $648,072, respectively. For the fiscal year ended June 30, 2007, before the effects of this change, reported revenues would have been $2,745,929 and reported expenditures would have been $2,270,553 (amounts in thousands).

Discretely Presented Component Units - Restatements Due to Correction of Errors

Effective July 1, 2006, the previously reported net assets of the Ben Franklin Technology Development Authority are being corrected and increased from $50,961 to $61,338 to account for previously over-reported expenses and related accounts payable of $10,377 during several fiscal years ended June 30, 2006 (amounts in thousands).

Effective July 1, 2006, the previously reported net deficit of the Commonwealth Financing Authority is being corrected and changed from $(20,157) to $(23,134) to account for previously unreported accrued interest payable and related interest expense of $2,977 as of and for the fiscal year ended June 30, 2006 (amounts in thousands).

As a result of these two restatements, aggregate non major discretely presented component unit net assets are being corrected and increased, on a net basis, from $392,941 to $400,341 as of July 1, 2006. Total discretely presented component unit net assets are being corrected and increased, on a net basis, from $6,017,460 to $6,024,860, as of July 1, 2006 (amounts in thousands).

NOTE C – NET ASSETS/FUND EQUITY

Governmental Activities and Business-Type Activities Net Assets: Total Net Assets are the difference between Total Assets and Total Liabilities reported on the Statement of Net Assets. Total Net Assets are reported in three distinct components: Invested in capital assets, net of related debt; Restricted net assets; and Unrestricted net assets. Invested in capital assets, net of related debt represents total capital assets less accumulated depreciation and the outstanding liability for debt specifically related to the acquisition of the capital assets. At June 30, 2007, governmental and business-type activities, respectively, reported $20,015,677 and $56,010 in net assets invested in capital assets, net of related debt. Restricted net assets for special funds are those that are statutorily established and for which net assets may only be used for specific legislated purposes. Governmental fund balance "designations" are not treated as restricted net assets because they represent plans and can easily be changed. Restraints established by enabling legislation, on the other hand, are not easily changed. At June 30, 2007, governmental and business-type activities, respectively, reported $4,038,012 and $3,532,020 in restricted net assets. Net assets restricted for other purposes of $87,077 and $165,168 for governmental activities and business-type activities, respectively, at June 30, 2007 include amounts for a range of dissimilar statutory purposes. Unrestricted net assets represent total net assets minus the totals of invested in capital assets, net of related debt and restricted net assets. At June 30, 2007, governmental activities reported unrestricted net assets of $343,162 (amounts in thousands).

Governmental Fund Balance Reservations: Fund balance reservations reported in governmental fund balance sheets represent portions of governmental fund balances that are legally segregated for a specific future use or are not available for expenditure.

The amount reserved for advances in the **General Fund**, $114.1 million, is applicable to advances as follows: $14.3 million to the Purchasing Fund, an Internal Service Fund; $2.3 million to the **State Workers' Insurance Fund** and $85.0 million to the State Stores Fund, both Enterprise Funds; $2.2 million to the **Motor License Fund**; and $10.3 million to the Pharmaceutical Assistance Fund, both Special Revenue Funds.

The amount reserved for advances in the Hazardous Sites Cleanup Fund, a Special Revenue Fund, is applicable to a $3 million advance to the Small Business First Fund, an Enterprise Fund.

Governmental funds reported total fund balance "other" reservations of $2,173,936 at June 30, 2007. This amount consists of $844,229 reserved in the **General Fund**, $822,644 for restricted revenue and $21,585 for continuing programs; $1,230,107 reserved in the **Tobacco Settlement Fund** for various health-related programs; $2,014 in the **Motor License Fund** for transportation-related programs, and $97,586 reserved in nonmajor Funds for the following programs: (amounts in thousands):

Land reclamation and other mining operations	$ 31,193
Pharmaceutical assistance	10,947
Recreation	3,189
Conservation, recycling and economic development	1,464
Workers compensation	28,508
Gaming activities	18,489
Total nonmajor Special Revenue programs	93,790
General State Authority maintenance in the Capital Facilities Fund	2,159
Land and water reclamation	1,637
Total nonmajor Capital Projects programs	3,796
Total nonmajor funds other reservations	$ 97,586

NOTE C – NET ASSETS/FUND EQUITY (continued)

Governmental Fund Balance Designations: Designations of unreserved fund balances reported in governmental funds balance sheets reflect managerial plans for the future use of financial resources. At June 30, 2007 the Commonwealth had included the following amounts as "Designated—Other" for the **General Fund** (amounts in thousands):

General Fund:		
Group medical and life insurance	$	386,402
Agency construction projects		138,583
Judicial computer system		133,826
Job creation tax credits		105,533
Waste tire and safe water programs		22,255
State Police statewide radio project		47,820
Conservation and Natural Resources radio project		20,786
Volunteer fire company assistance		1,886
Corrections programs		8,482
Public Welfare and medical assistance programs		51,453
Information Management & Access project		3,000
Probation and Parole state and county supervision		1,395
Other		2,545
Total **General Fund**	$	923,966

Governmental Fund Balance Deficits: One fund has reported a fund balance deficit in the governmental funds balance sheet. The State Racing Fund, a Special Revenue Fund, reported a fund balance deficit of $700 at June 30, 2007 (amounts in thousands).

The Capital Facilities Fund, a Capital Projects Fund, reported a deficit unreserved/undesignated fund balance of $447,281 at June 30, 2007. In total, the Capital Facilities Fund reported a fund balance of $413,921 at June 30, 2007. The Land and Water Development Fund and the Local Criminal Justice Fund, both Capital Projects Funds, reported a deficit unreserved/undesignated fund balance of $380 and $1,961, respectively, at June 30, 2007. Total Capital Projects Funds reported reservations for encumbrances of $945,051; other reservations of $3,796; designations for Capital Projects of $65,455; and a deficit unreserved/undesignated fund balance of $449,622; for total combined fund balances of $564,680 at June 30, 2007 (amounts in thousands).

Proprietary Fund Net Assets: Nonmajor funds reported total restricted net assets for "other purposes" of $106,756 at June 30, 2007 for the following programs: mine subsidence insurance, $58,735; liquor control, $35,557; vocational rehabilitation, $3,957; and $8,507 for other programs (amounts in thousands).

Component Unit Net Assets: Net assets of most component units are restricted, consistent with enabling legislation for component units. Net assets are restricted to purposes specifically identified by the legislation that created the component unit entity. The Pennsylvania Industrial Development Authority reported unrestricted net assets of $270,773 and the Commonwealth Financing Authority reported an unrestricted net assets deficit of $92,769 (amounts in thousands).

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Authority for Deposits and Investments

Treasury Department

The deposit and investment policies of the Treasury Department are governed by Sections 301, 301.1 and 505 of the Pennsylvania Fiscal Code (Act of 1929, P.L. 343), and Section 321.1 of the Pennsylvania Administrative Code (Act of 1929, P.L. 177, No. 175).

Treasury deposits must be held in insured depositories approved by the Board of Finance and Revenue and must be fully collateralized. The Fiscal Code grants the Treasury Department the authority to invest in any deposits and investments. This authority is subject, however, to the exercise of that degree of judgment and care under the circumstances then prevailing which persons of prudence, discretion and intelligence who are familiar with such matters exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of the funds considering the probable income to be derived there from as well as the probable safety of their capital. Treasury Department deposits and investments may include equity securities and mutual funds.

As of June 30, 2007, the Treasury Department manages the Treasury Investment Program (TIP). Practically all Commonwealth Funds of the primary government are invested on a temporary basis in the TIP. The objectives of the TIP are preservation of principal, liquidity, diversification and income. All investments are made in accordance with the statutory authority described in the preceding paragraph. The TIP investment pool structure invests in both equity securities and fixed income securities to achieve the investment objectives of the funds of the Treasury Investment Program. Asset allocation targets between equity securities and fixed income securities are established in order to meet these overall objectives.

The TIP consists of two types of pools, currently known as The Common Investment Pool and The Treasury Liquid Asset Pool. The Common Investment Pool consists of three portfolios as follows: the Short-Term Diversified Portfolio, which consists of fixed income investments in a Short-Term Funds segment and a 2-Year Duration Target segment; the Mixed-Term Diversified Portfolio, which consists of fixed income investments, including high yield, and equity investments; and the Discretionary Assets Portfolio, which includes certain economically targeted investments deemed appropriate by the State Treasurer. The Treasury Liquid Asset Pool is a portfolio consisting of fixed income investments with a maximum term not greater than 13 months managed by the Treasury Department.

Other Investing Organizations

Certain investing organizations have statutory authority, which is comparable to the Treasury Department 'prudent person' authority above. The investments of such organizations are accounted for in the following Funds: **Tobacco Settlement**, Workers Compensation Security Trust, **State Workers Insurance**, **Tuition Payment**, INVEST Program for Local Governments (INVEST), Statutory Liquidator, and Underground Storage Tank Indemnification (collectively, other investing organizations). Among other things, the other investing organizations typically invest for longer periods of time than the TIP. Therefore, the other investing organizations own, in relative terms, more intermediate or long-term investments than the TIP. Most of the other investing organizations establish contractual arrangements with investment managers, which identify investment objectives without providing strict limitations on 'allowable' investment purchases. Most of the other investing organizations prohibit investing in certain assets, such as commodities and futures contracts, private placements, except Section 144, options, limited partnerships, real estate properties, and corporations that are engaged in the tobacco industry. Several of the organizations also prohibit short selling and marginal transactions. One notable exception is **Tobacco Settlement**; this organization permits some or all of the previously mentioned prohibited assets and transactions as well as foreign investments.

Pension Trust Funds

The State Employees Retirement System (SERS), the Deferred Compensation Program (DCP) and the Public School Employees Retirement System (PSERS) constitute Pension Trust Funds reported in the basic financial statements. Pension Trust Funds avoid deposit risks; as such deposits must be authorized by the Treasury Department. Several state laws govern investment authority for the SERS and the PSERS; such laws provide 'prudent person' investing authority. Allowable DCP investment options are established by the SERS under its applicable statutory authority. A very large portion of total Pension Trust Fund investments consists of equity securities, real estate and a wide variety of mutual funds.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Deposit Risks

At June 30, 2007, Treasury Department bank balances of $7,718 were subject to custodial risk; $7,468 was uninsured and uncollateralized and $250 was uninsured, with collateral held by the pledging institution's trust departments and not in the name of the Commonwealth. In addition, $68,731 of Statutory Liquidator Fund deposits were subject to custodial credit risk; all such deposits were uninsured and uncollateralized. The PSERS had deposits totaling $45,318 at June 30, 2007 that were not required to be collateralized by statute or policy at M&T Bank which has a credit rating of A/A2. None of the other investing organizations or the Pension Trust Funds was exposed to either custodial credit risk or foreign currency risk for its deposits at June 30, 2007 (December 31, 2006 for the **State Workers Insurance**, SERS, and DCP) (amounts in thousands).

Investment Risks

Risk Management Policies: The Treasury Department, which is responsible for the TIP, **Tuition Payment** and INVEST programs, has formally adopted a written investment policy. Provisions of the written investment policy and current management of the investments address custodial credit risk, concentration risk, credit risk, interest rate risk, and foreign currency risk. Most of the other investing organizations have adopted investment policies intended to reduce the various risks or, in the case of foreign currency risk, to avoid it entirely. Pension Trust Fund policies avoid custodial credit risk entirely but are exposed to credit quality, interest rate, and foreign currency risk. To a large degree, credit risk is avoided by following policies to purchase only 'investment grade' securities (Baa/BBB/BBB or better). Where interest rate risk policies have been adopted, risk is avoided by establishing maximum maturities. To a degree, the establishment of policies limiting investment purchases from a single issuer avoids concentration risk. The individual risk policies and related disclosures are discussed in greater detail below. Either collectively or individually, none of the five non-Treasury investing organizations subject themselves to significantly higher risks than the Treasury Department. Based on the long-term nature of Pension Trust Fund investments, those Funds are exposed to interest rate risk and foreign currency risk and, to a smaller degree, credit quality risk.

Investments by Type

At June 30, 2007 the TIP and the other investing organizations disclosed a total of $21,341,995 in investments. This consists of 79 percent fixed income securities ($16,800,519), 19 percent common stock securities ($4,023,447), and the remaining two percent consists of private equity, mutual funds, annuities, foreign cash and cash equivalents, and others. The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Annuities…….	$ 1,718
Asset-backed securities……..	210,258
Certificates of deposit……..…	485,986
Commercial paper……..	2,027,067
Common stock securities……...	4,023,447
Corporate obligations…….	1,766,706
International fixed income……..	1,374
Limited partnerships……..……	6,716
Money markets mutual funds...……..	3,965,653
Mortgage-backed securities……	1,438,378
Mutual funds……...	437,188
Preferred securities…….	1,032
Private equity……..	73,094
Repurchase agreements……..	1,744,515
State and municipal obligations……..	45,223
U.S. government agency obligations……..	3,081,816
U.S. private placements……..	64,633
U.S. Treasury obligations……...	1,967,191
Total……	**$ 21,341,995**

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold its agreement to a transaction, with either the Treasury Department, the other investing organizations or the Pension Trust Funds, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. In accordance with a contractual relationship between the Treasury Department and its custodial agents, substantially all

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

investments, where securities are used as evidence of the investment, are held by the custodians in book entry form in the name of the Commonwealth or the custodian. The TIP, **Tuition Payment** and INVEST investments are insured or registered; and the securities are held by the Treasury Department or its agent. Similarly, investments of the other investing organizations and the Pension Trust Funds are almost always registered in the name of the Commonwealth, as the Treasury Department is the statutory custodian for such investments. At June 30, 2007, only the Statutory Liquidator Fund owned investment securities subject to custodial credit risk, in the amount of approximately $1.56 billion. Such securities are neither insured nor registered and are either held by the counterparty or the counterparty's trust department or agent but not in the name of the Commonwealth. The investments types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Asset-backed securities……..	$ 121,520
Commercial paper…….....	30,080
Common stock……	112
Corporate obligations……..…….	413,462
International fixed income…….….....	1,374
Mortgage-backed securities……	302,222
Repurchase agreements……..……	327,883
State and municipal obligations……..……	16,600
U.S. government agency obligations…….....	160,276
U.S. Treasury obligations……..	188,643
Total …….	**$ 1,562,172**

Concentration Risk: Concentration risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. The Treasury Department places a 10 percent limit on the concentration of investments in any one fixed income issuer within both the TIP, **Tuition Payment** and INVEST. This limitation excludes government-sponsored enterprises (GSEs), direct obligations of the U.S. Treasury or U.S. agencies, and repurchase agreements. The Treasury Department also places a five percent limit on the concentration of investments in one equity issuer within the Common Investment Pool. Similarly, to a degree, the five other investing organizations limit exposure to concentration risk. Several other investing organizations have adopted policies, which allow greater than five percent of portfolios to consist of securities issued by the U.S. Treasury. At June 30, 2007, over nine percent of total Treasury and other investing organization portfolio investments ($21,341,995) consisted of U.S. Treasury obligations ($1,967,191); this amount is over 11 percent of total fixed income investments ($16,800,519). Also, among Treasury and other investing organizations, the following concentrations existed as of June 30, 2007 (December 31, 2006 for the **State Workers Insurance Fund**) (amounts in thousands):

Issuer Name	Total
Federal National Mortgage Association……..	$ 2,656,963
United States Treasury…….	1,967,191
Bank of America……..	1,239,104

Among the Pension Trust Funds, the SERS disclosed that $1.9 billion of U.S. Treasury securities were owned at its fiscal year ended December 31, 2006.

As of and during the year ended December 31, 2006 the **State Workers Insurance Fund** (**SWIF**) owned more equity securities at cost than allowed by applicable statutory authority. Act 41 of 2005 permits the **SWIF** to invest in equities at cost not exceeding the lesser of 1) 20 percent of the Fund's assets or 2) the statutory surplus after discount. Based on the reported statutory surplus after discount of $175.8 million, equity investments reported at cost exceeded the surplus by $57.7 million. **SWIF**'s governing board has directed its investment consultant to make recommendations to rebalance the portfolio and specify action necessary to ensure compliance with Act 41.

Credit Quality Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies (NRSRA) such as Moody's Investors Service (Moody's), Standard & Poor's (S&P), and Fitch Ratings (Fitch). The Treasury Department requires purchases of TIP assets to be investment grade (Baa/BBB/BBB or better) at the time of purchase. The fixed income portfolio includes a provision for the asset allocation to allow up to 10 percent of the portfolio to be in high yield investments. These investments, by definition, are not restricted to the investment grade requirements and include investments rated at Ba/BB/BB or below. Generally the other investing organizations limit exposure to credit risk through policies which prevents purchasing below investment grade (Baa/BBB/BBB or better).

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

At June 30, 2007 approximately $16,800,519 of total TIP and other investing organization investments of $21,341,995 are fixed income investments, susceptible to credit quality rating; the remainder is primarily common stock ($4,023,447), mutual funds ($437,188) or other types of investments, including private equity ($73,094). Of the amount susceptible to credit quality rating, $6,045,441 is rated; ratings are not available for $10,755,078 of fixed income investments. The following tables discloses aggregate fair value, by the lowest rating obtained by credit quality rating category, at June 30, 2007 for the Treasury Department and the other investing organizations fixed income investments (amounts in thousands):

Moody's Investor Services	**Amount**
Aaa……..	$ 991,392
Aa1……..	19,678
Aa2……..	63,623
Aa3……..	156,334
A1……	141,446
A2……	215,892
A3……	115,078
Baa1……	45,462
Baa2……	102,261
Baa3……	100,526
Ba1……..	39,227
Ba2……..	45,980
Ba3……..	38,634
B1……	29,208
B2……	33,401
B3……	31,451
Caa1……	11,802
Caa2……	1,282
Caa3……	42
Ca……	155
P-1……..	510,965
VMIG1……..	414
Moody's Investor Services subtotal……..	**$ 2,694,253**

Fitch Ratings	
AAA……	$ 1,654,956
AA+…….	91
AA……	3,196
AA-……..	13,648
A+……	5,684
A……..	1,008
A-…….	6,703
BBB+……..	1,101
BBB…….	460
BBB-……	268
BB+…….	68
BB……	194
B+……	368
B……..	47
B-…….	2,925
CCC-……...	116
Fitch Ratings subtotal……	**$ 1,690,833**

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Standard and Poor's	Amount
AAA……	$ 589,589
AA+…….	6,856
AA……	21,895
AA-……..	59,429
A+……	62,024
A……..	46,945
A-…….	39,833
BBB+……..	50,041
BBB…….	21,496
BBB-……	8,682
BB+…….	2,710
BB……	19,137
BB-……..	21,941
B+……	17,788
B……..	30,297
B-…….	17,344
CCC+……..	6,904
CCC…….	3,404
A-1+……	380,032
A-1……...	254,008
Standard and Poor's subtotal……	**$ 1,660,355**
Unrated	
U.S. Government agency obligations[a]….....	$ 3,258,846
U.S. Treasury obligations[b]…….....	332,613
Other……	7,163,619
Unrated subtotal..……...…….	**$ 10,755,078**
Total fixed income investments..…….	**$ 16,800,519**

[a] U.S. Government agency obligations that were not rated by a Nationally Recognized Securities Rating Agency (NRSRA) and consists of Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating.

[b] U.S. Treasury obligations not rated by a NRSRA and consists of securities issued by the U.S. Treasury. They are negotiable debt obligations of the U.S. Government secured by its full faith and credit. U.S. Treasury obligations are not usually rated by a NRSRA. Assuming they are held to maturity they are considered extremely credit worthy.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

At June 30, 2007 approximately 34 percent of the Treasury fixed income portfolio is rated investment grade or better and less than two percent is rated below investment grade. Approximately 64 percent ($10,755,078) of the fixed income portfolio in TIP and the other investing organizations is not rated by any of the NRSRA. The unrated securities consisted of U.S. Government agency obligations ($3,258,846) U.S. Treasury obligations ($332,613), and the remainder ($7,163,619) consists of the following types of investments as of June 30, 2007 (amounts in thousands):

Investment Type	Amount
Annuities……..	$ 1,718
Asset-backed securities…….	55
Certificates of deposit……	485,987
Commercial paper……..	1,203,620
Corporate obligations…….	65,828
Money market mutual funds...……...	3,214,650
Mortgage-backed securities……	71,197
U.S. private placements…….	1,497
Repurchase agreements…….	1,422,957
State and municipal obligations……	696,110
Total Unrated……	**$ 7,163,619**

The Pension Trust Funds may expose themselves to greater credit quality risk than Treasury programs or other investing organizations to meet specific investment objectives. SERS and DCP fixed income securities, which are exposed to credit quality risk, are rated as follows (amounts in thousands):

Moody's Investor Services[a]	SERS	DCP
Aaa……...	$ 607,179	$ 28,751
Aa……	73,426	32,437
A……...…	192,881	64,766
Baa……...	362,952	12,416
Ba…….	676,537	132
B……...……	703,816	-
Caa……...	149,795	-
Ca…….	3,575	-
C……...	1,963	-
D……	3,662	-
AGY[b]……	457,369	382,773
Unrated[c]…….……..	149,871	12,042
Short-term market neutral contracts[d]	(22)	-
Treasury Investment Program……	573,720	41,935
Total……	**$ 3,956,724**	**$ 575,252**

[a] The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Ba1 is shown as a rating of Ba in this table.

[b] AGY rating is assigned to securities issued by Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and several other entities that do not have a Moody's ratings. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating.

[c] Represents securities that were either not rated by Moody's, or had a withdrawn rating. Unrated also includes the market value of certain swaps, which by nature do not have credit quality ratings.

[d] Represents investments of the SERS' Market Neutral investment strategy and includes cash and cash equivalents. The investments represent deposits for short sales and cash collateral and are invested primarily in U.S. Treasury Obligations.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

PSERS fixed income securities, which are exposed to credit quality rating, are listed below using the rating (expressed as S&P equivalent), available from Fitch, Moody's, and/or S&P that indicates the greatest degree of risk at June 30, 2007 (amounts in thousands):

Standard and Poor's Equivalent[a]	Amount
AAA…….	$ 7,608,036
AA……	907,907
A……...	1,254,699
BBB……..…	1,291,445
BB and below……...	957,173
Unrated[b]……	1,970,560
U.S. Treasury and U.S. government agency obligations[c]……..	2,858,041
Treasury Investment Program…….	3,236,147
Total……	**$20,084,008**

[a] The Standard and Poor's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of A+ is shown as a rating of A in this table.
[b] Unrated represents securities that were not rated by S&P and $1,202,848 of securities in collective trust funds at June 30, 2007.
[c] Represents securities issued by U.S. Treasury, Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating. U.S. Treasury obligations are backed by the full faith and credit of the U.S. Government and are implied to have a AAA rating.

Interest Rate Risk: Interest rate risk is the risk that an investment's value will change, advantageously or adversely, due to a change in the absolute value of interest rates. The Treasury Department measures interest rate risk using duration. To limit Treasury's exposure to fair value losses arising from rising interest rates, Treasury's long-term asset allocation diversifies its fixed income core segment between intermediate duration and longer duration strategies. Duration is a measure of an investment's sensitivity to changes in interest rates. The higher the duration, the greater the changes in fair value when interest rates change. Treasury measures interest rate risk using option-adjusted duration, which takes into account embedded options affecting cash flows. Other investing organizations use less sophisticated measurements to manage interest rate risk; several limit the maximum term-to-maturity of investment purchases. Further, to avoid interest rate risk, many other organizations deliberately hold a given percentage of total investments in very short-term securities to avoid the potential need to sell such securities at a loss. At June 30, 2007, TIP and other investing organizations, excluding Statutory Liquidator, fixed income portfolio had the following option-adjusted durations (in years) by investment type (amounts in thousands):

Investment Type	Amount	Option-Adjusted Duration	Securities with no Duration
Asset-backed securities……	$ 87,527	1.540	$ 1,211
Certificates of deposit……...	472,610	0.661	13,154
Commercial paper……	1,996,987	0.094	-
Corporate obligations……...	1,303,831	4.000	49,412
Money markets…….	2,470,000	0.083	689,910
Mortgage-backed securities……..	1,117,525	4.130	18,632
Repurchase agreements……	1,416,632	0.001	-
State and municipal obligations……..	22,423	6.498	6,200
U.S. government agency obligations……	2,915,574	1.030	5,966
U.S. private placements……	61,636	3.424	2,997
U.S. Treasury obligations…….	1,778,548	4.928	-
Total…….	**$ 13,643,293**		**$ 787,482**

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The Statutory Liquidator Fund does not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for that Fund (amounts in thousands):

Investment Type	Matures in less than One Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in 11 to 20 Years	Matures in 21 to 30 Years	Matures in 31 to 40 Years	Matures in 41 to 50 Years	Total
Annuities…….	$ 1,718	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,718
Asset-backed securities……..	-	17,462	5,822	3,637	89,187	5,412	-	121,520
Certificates of deposit…….	222	-	-	-	-	-	-	222
Commercial paper……..	30,080	-	-	-	-	-	-	30,080
Corporate obligations…….	51,425	256,806	72,526	6,124	10,431	6,450	9,700	413,462
International Fixed Income….	-	1,374	-	-	-	-	-	1,374
Money markets……...	805,743	-	-	-	-	-	-	805,743
Mortgage-backed securities…	2,601	34,248	23,495	25,653	216,225	-	-	302,222
Repurchase agreements……..	327,884	-	-	-	-	-	-	327,884
State and municipal obligations……..	-	90	375	1,490	5,680	8,965	-	16,600
U.S. government agency obligations……..	33,797	104,120	12,674	9,685	-	-	-	160,276
U.S. Treasury obligations…...	17,935	134,944	35,764	-	-	-	-	188,643
Total……	**$1,271,405**	**$549,044**	**$150,656**	**$ 46,589**	**$321,523**	**$ 20,827**	**$ 9,700**	**$2,369,744**

Based on specific investment objectives, the Pension Trust Funds may expose themselves to greater interest rate risk than Treasury programs or other investing organizations. Several investment choices, which may be selected by Deferred Compensation Program participants, include the Stable Value Account, Aggregate Bond Index, and U.S. Tactical Asset Allocation Fund, include a variety of fixed income securities. Each Pension Trust Fund uses option-adjusted duration (in years) as a measure of interest rate risk, as follows (amounts in thousands):

Investment Type	SERS Amount	DCP Amount	SERS Option-Adjusted Duration	DCP Option-Adjusted Duration
Asset-backed securities……...	$ 332,130	$ 13,709	1.0	2.1
Corporate obligations……..	1,290,576	102,967	3.3	4.8
International fixed income……..	-	1,048	n/a	1.6
Mortgage-backed securities…….	550,471	369,070	2.1	3.4
Short-term market neutral……...	(22)	-	0.1	n/a
State and municipal obligations……	-	234	n/a	13.1
Sovereign debt……	561,376	8,011	5.6	4.5
Treasury Investment Program…….	573,720	41,935	0.1	0.1
U.S. government agency obligations	201,960	26,087	2.2	2.7
U.S. private placements……...	345,986	12,191	3.9	3.5
U.S. Treasury obligations……	1,898,745	119,447	4.2	5.0
Other Investments[a]……...	97,019	-	n/a	n/a
Total……	**$5,851,961**	**$ 694,699**		

[a]Other Investments represents certain SERS securities with maturities ranging through the year 2046 and the value of swap agreements as of December 31, 2006.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

PSERS:

Investment Type	Amount	Option-Adjusted Duration
Corporate obligations and taxable municipal obligations..	$ 3,633,248	3.0
Fixed income collective trust funds……...	1,202,848	4.2
International fixed income…….	2,134,833	5.2
Miscellaneous domestic fixed income……...	150,039	1.0
Mortgage-backed securities……...	6,190,646	3.3
Treasury Investment Program……...…….	3,236,147	0.1
U.S. Treasury and agency obligations……	2,608,384	6.6
**Total……..	**$ 19,156,145**	

Foreign Currency Risk: Foreign currency risk is the risk of an investment's value changing, advantageously or adversely, due to changes in currency exchange rates. The Treasury Department's policy requires all investments to be denominated in U.S. dollars, issued under U.S. laws and regulations, designed for U.S. investors, and traded in U.S. markets. Among the other investing organizations, the **Tobacco Settlement Fund** and the **Tuition Payment Fund** are authorized to purchase securities denominated in a foreign currency. At June 30, 2007, the **Tobacco Settlement Fund** reported $77.5 million and the **Tuition Payment Fund** reported $42.9 million of foreign currency-denominated holdings. The foreign currency holdings make up nearly 30 percent of the **Tuition Payment Fund**'s total investment portfolio and less than six percent of the **Tobacco Settlement Fund**'s total investment portfolio. The amounts invested, by currency, are as follows (amounts in thousands):

Foreign Currency	Short Term Holdings[a]	Equity	Total
Euro Currency Unit……..	$ 2,259	$ 34,685	$ 36,944
British Pound Sterling…….	203	23,088	23,291
Japanese Yen……..	176	22,447	22,623
Swiss Franc……	61	10,453	10,514
Hong Kong Dollar……	285	9,188	9,473
Canadian Dollar……..	12	6,841	6,853
Australian Dollar……..	8	2,698	2,706
Mexican New Peso…….	5	1,817	1,822
Danish Krone……..	14	1,405	1,419
Singapore Dollar……..	8	800	808
Malaysian Ringgit……	78	703	781
South African Rand……	66	707	773
Swedish Krona……	8	675	683
Thailand Baht……..	13	644	657
Russian Rubel (New)……..	-	624	624
New Turkish Lira……	-	408	408
New Zealand Dollar…….	9	-	9
Norwegian Krone……	6	-	6
**Total……...	**$ 3,211**	**$ 117,183**	**$ 120,394**

[a] Includes receivables and payables for futures contracts, securities sold, and securities purchased.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Each Pension Trust Fund is exposed to foreign currency risk as part of meeting specific investing objectives or allocations among different classes of investments. The SERS is exposed to foreign currency risk primarily for equity securities at December 31, 2006 as follows (amounts in thousands):

Foreign Currency	Short Term Investments[a]	Fixed Income	Equity	Real Estate	Alternative Investments	Total
Euro Currency Unit……..	$ 35,573	$ 8,630	$ 1,292,941	$ 52,434	$ 165,942	$ 1,555,520
British Pound Sterling…..	(707)	-	918,534	64,835	-	982,662
Japanese Yen……	(1,486)	-	735,881	61,299	-	795,694
Hong Kong Dollar……	1,158	-	314,094	35,942	-	351,194
Swiss Franc……...	(607)	-	340,506	-	-	339,899
South Korean Won……..	(559)	-	213,389	-	-	212,830
Australian Dollar……..	(141)	-	101,932	56,959	-	158,750
Swedish Krona……..	(364)	-	122,224	5,019	-	126,879
Singapore Dollar……...	365	-	82,377	10,249	-	92,991
New Taiwan Dollar……..	1,274	-	88,684	-	-	89,958
Norwegian Krone……..	3,280	-	81,396	2,444	-	87,120
South African Rand……..	2,429	-	52,853	-	-	55,282
Brazil Real……	467	730	49,011	-	-	50,208
Canadian Dollar……	17	3,568	25,197	13,086	-	41,868
Mexican New Peso……..	137	3,186	36,035	-	-	39,358
Danish Krone……	144	-	38,748	-	-	38,892
Indian Rupee…….	2,147	-	33,692	-	-	35,839
Malaysian Ringgit…….	44	-	27,785	-	-	27,829
Thailand Baht……	53	-	22,401	-	-	22,454
Other Currencies (13)…..	1,019	-	87,705	-	1	88,725
Total…….	**$ 44,243**	**$ 16,114**	**$ 4,665,385**	**$ 302,267**	**$ 165,943**	**$ 5,193,952**

[a] Includes receivables and payables as of December 31, 2006 for securities sold and purchased.

One of several investing choices that may be selected by DCP participants is the European, Australian and Far East Equity (EAFE) Index Fund, which owns international equities and is managed by an external manager. The EAFE Equity Index Fund within the program seeks to track the more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim that are a part of the Morgan Stanley Capital International EAFE Index. At December 31, 2006, the DCP had the following currency exposures related to equity securities (amounts in thousands):

Foreign Currency	Fair Value
Euro Currency Unit……..	$ 33,512
British Pound Sterling…..	23,675
Japanese Yen……	23,216
Swiss Franc……...	6,911
Australian Dollar……..	5,599
Swedish Krona……..	2,619
Hong Kong Dollar……..	1,788
Singapore Dollar……...	975
Norwegian Krone…….	930
Danish Krone……...	828
New Zealand Dollar…….	160
Chinese Yuan Renminbi...	17
Total…….	**$ 100,230**

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The PSERS is exposed to foreign currency risk for equity and other securities as follows (amounts in thousands):

Foreign Currency	Short Term Investments[a]	Fixed Income	Equity	Alternative Investments	Currency Hedge	Total
Euro Currency Unit……	$ (232,932)	$ 924,033	$ 4,543,147	$ 720,273	$ (1,864,314)	$ 4,090,207
British Pound Sterling…	596,752	242,722	3,330,681	67,078	(864,825)	3,372,408
Japanese Yen……..	(177,619)	218,152	3,096,446	-	(1,056,235)	2,080,744
Australian Dollar……	244,290	7,225	779,589	-	-	1,031,104
Canadian Dollar……..	(120,701)	127,283	845,365	15,675	-	867,622
Hong Kong Dollar….....	6,503	-	856,048	-	(86,725)	775,826
South Korean Won…….	38,661	12,076	529,302	-	-	580,039
Swedish Krona……	(64,834)	75,172	475,061	-	-	485,399
New Zealand Dollar……	316,422	14,251	13,059	-	-	343,732
Taiwan Dollar…….	40,574	-	298,257	-	-	338,831
South African Rand……	10,776	-	305,065	-	-	315,841
Norwegian Krone……..	129,486	3,156	169,799	-	-	302,441
Other Currencies (27)…..	(697,691)	99,498	2,544,082	-	(363,529)	1,582,360
Total……..	**$ 89,687**	**$ 1,723,568**	**$ 17,785,901**	**$ 803,026**	**$ (4,235,628)**	**$ 16,166,554**

[a] Includes investment receivables and payables.

Securities Lending Program

The Treasury Department provides a securities lending program authorized by the Fiscal Code, which provides the Treasury Department with numerous custodial responsibilities; the securities program is an integral part of the custodial function. A contract between the Treasury Department and its custodian, acting as lending agent, provides that the custodian lends securities owned by the participants to independent brokers, dealers and banks, acting as borrowers.

Lending agreements between the custodian and the borrowers require that the custodian receive collateral from the borrowers in exchange for the securities lent. For securities lent which are not denominated in U.S. dollars or whose primary trading market is located outside the U.S., the fair value of the collateral received must be at least 105 percent of the fair value of the securities lent. For all other securities lent, the fair value of the collateral received must be at least 102 percent. Securities lent consist of both domestic and foreign equity securities and U.S. Treasury and foreign debt obligations. Almost all collateral received consists of cash; a very small portion of collateral received consists of letters of credit, U.S. Treasury, corporate and/or foreign debt obligations. Collateral is marked to market daily. Additional collateral from borrowers is required if the fair value of the collateral received declines below lending agreement requirements. The lending agent cannot pledge or sell collateral securities received unless the borrower defaults. Accordingly, neither collateral securities received from borrowers nor the related obligations to borrowers are reported.

To the extent collateral received consists of cash, the lending agent may use or invest the cash in accordance with reinvestment guidelines approved by the Treasury Department. Either the participant or the borrower may terminate lending agreements on demand. Lending agreements are typically of very short duration - usually overnight. Therefore, the duration of lending agreements do not generally match the maturities of the investments made with cash collateral. The resulting rate risk is mitigated by the lending agent's ability to reallocate lending agreements among program participants.

The program requires that the lending agent indemnify the Treasury Department for all claims, liabilities and costs resulting from the lending agent's negligence or intentional misconduct. During the fiscal year ended June 30, 2007 (December 31, 2006 for the **State Workers Insurance Fund (SWIF)** and the SERS), there were no failures by any borrower to return securities lent or pay distributions thereon. Also, there were no losses resulting from a lending agent or borrower default and there were no Treasury Department restrictions on the amount of the loans that could be made.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

At June 30, 2007 (December 31, 2006 for the **SWIF** and the SERS), there was no Treasury Department or participant credit risk to the borrowers because the fair value of collateral received was greater than the fair value of the securities lent, consistent with the lending agreements outstanding. The fair value of the securities lent, along with type of investments lent, are (amounts in thousands):

	Securities Lent Amount	U.S. Treasury Obligations	U.S. Government Agency	Corporate Obligations	Equities	Sovereign Debt
Tobacco Settlement Fund……	$ 268,058	$ 118,093	$ 82,956	$ 1,768	$ 65,241	$ -
State Lottery Fund……...	3,522	3,522	-	-	-	-
State Workers Insurance Fund……..	685,155	516,411	136,139	19,795	12,810	-
Tuition Payment Fund……	161,047	43,614	19,022	1,673	96,738	-
Workers' Compensation Security Trust Fund……	122,270	84,836	15,985	6,345	15,104	-
Underground Storage Tank Indemnification Fund	14,327	9,941	1,873	743	1,770	-
State Employees' Retirement System…….	3,299,923	1,976,881	109,978	171,025	933,937	108,102
Public School Employees Retirement System…..	9,843,769	2,195,066	361,750	333,660	6,633,423	319,870
Treasury Investment Programs……...	1,502,001	856,422	277,360	54,130	314,089	-

Financial Instruments with Off-Balance Sheet Risk

Tobacco Settlement Fund

The **Tobacco Settlement Fund** enters into derivatives and structured instruments primarily to enhance the performance and reduce volatility of its investment portfolio. It enters into futures contracts to gain or hedge exposure to certain investment markets and to manage interest rate risk.

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The **Tobacco Settlement Fund** has entered into certain futures contracts maturing through March 2010. The notional value of these contracts at June 30, 2007 is as follows (amounts in thousands):

Futures Contract	Buy Contracts	Sell Contracts
U.S. Treasury futures....	$ -	$ (5,168)
Eurodollar futures…….	-	(29,837)
S&P 500 futures……	121,990	-

State Employees' Retirement System (SERS)

The SERS enters into certain derivative and structured financial instruments primarily to enhance the performance and reduce the volatility of its investment portfolio. It enters into foreign exchange contracts and foreign currency options contracts to hedge foreign currency exposure, futures contracts to gain or hedge exposure to certain equity markets and to manage interest rate risk, and swaps to gain equity exposure on its absolute return fund-of-funds investments, as well as hedge against the effects of inflation.

Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed upon price and settlement date. The SERS uses these contracts primarily to hedge the currency exposure of its international investments. To reduce the risk of counterparty nonperformance, the SERS generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness. The unrealized gain/loss on contracts is included in

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

the SERS' net assets and represents the fair value of the contract on December 31. At December 31, 2006, the SERS had contracts to purchase and sell by major foreign currency were as follows (amounts in thousands):

Foreign Currency	Buy Contracts	Unrealized Gain/(Loss)	Sell Contracts	Unrealized Gain/(Loss)
Japanese Yen……..	$2,035,285	$ (99,167)	$2,926,774	$ 106,071
Euro Currency Unit……	1,494,543	34,171	1,627,684	(49,116)
British Pound Sterling……	979,649	36,015	1,101,384	(46,925)
Swiss Franc……	607,661	(2,890)	712,462	(3,192)
Swedish Krona……...	110,668	5,054	121,841	(6,957)
Australian Dollar……...	76,156	2,271	87,091	(3,893)
Other……...	6,390	34	8,203	(34)
Total…….	**$5,310,352**	**$ (24,512)**	**$6,585,439**	**$ (4,046)**

Futures contracts are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price. Gains and losses on futures contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Because of daily settlement, the futures contracts have no fair value.

The exchange on which futures contracts are traded assumes the counterparty risk and generally requires margin payments to minimize such risk. The SERS pledges investment securities to provide the initial margin requirements on the futures contracts it buys. In addition to that collateral, the SERS also pledges securities for sales of securities that it does not presently own (short sales). The SERS enters into those short sales to neutralize the market risk of certain equity positions.

The SERS has entered into certain futures contracts maturing through June 15, 2009. The notional value of these contracts at December 31, 2006 is as follows (amounts in thousands):

Futures Contract Type	Buy Contracts	Sell Contracts
U.S. Treasury futures…….	$ 236,184	$ 28,972
Eurodollar futures……..	168,337	142,155

Swap agreements provide for periodic payments between parties based on the change in value of underlying assets, indexes, rates, or credit worthiness. During 2006, the SERS entered into commodity swaps, S&P 500 total return swaps, Russell 2000 swaps, MSCI-EAFE swaps, credit default swaps, and interest rate swaps. Under the commodity swap arrangement, the SERS receives the net return of the Goldman Sachs Commodity Index from the swap counterparty in return for a spread, which it pays to the counterparty. The commodity swaps are used as an inflation hedge and settle on a monthly basis. The S&P 500 total return swaps, Russell 2000 swaps, and MSCI-EAFE swaps are used to gain equity exposure on its absolute return fund-of-funds and global macro investments. Under those arrangements, the SERS receives the net return of the respective equity indices in exchange for a short-term rate plus a spread. The SERS uses multiple contracts with counterparties as well as collateral posting requirements to manage its credit risk. The contracts have varying maturity dates ranging from March 16, 2007 through December 17, 2007. Credit default swaps are agreements with counterparties to either purchase or sell credit protection. The SERS' advisors use credit default swaps to either increase or decrease credit exposure to certain credit markets. Interest rate swaps are over-the-counter contracts that allow counterparties to exchange a fixed rate liability for a floating rate liability. The SERS uses interest rate swaps as the most cost-effective way of gaining exposure to certain sectors of the fixed income market.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

The table below presents the SERS' swap exposure at December 31, 2006 (amounts in thousands):

Swap Type	Notional Value	Receivable/(Payable)
S&P 500 Total Return Index……..	$ 5,493,078	$ 440,484
MSCI-EAFE Index…….	2,451,978	97,293
Goldman Sachs Commodity Index.	1,595,177	(117,788)
Russell 2000……	498,704	(500)
Interest Rate……	22,550	867
Credit Default…….	239,200	1,577

The SERS mitigates its legal risk on investment holdings, including the previously discussed instruments, by carefully selecting portfolio managers and extensively reviewing their documentation. It manages its exposure to market risk within risk limits set by management.

The SERS also indirectly holds foreign exchange contracts, futures contracts, and certain swap contracts through its investments in collective trust funds. Those collective trust funds invest in those investments directly and indirectly (through a securities lending collateral pool), to hedge foreign exchange exposure, to synthetically create equity-like returns, and to manage interest rate risk by altering the average life of the portfolio.

Deferred Compensation Program (DCP)

The DCP, through the Barclays Global Investors (BGI) managed accounts, indirectly holds certain derivative financial instruments. Certain accounts directly participate in futures contracts, which are standardized, exchanged-traded contracts to purchase or sell a specific financial instrument at a predetermined price. The accounts enter into future contracts to gain exposure to certain equity markets. In those accounts where the use of futures contracts is permitted, BGI limits the accounts' positions to a small amount of the account's total assets, subject to each account's investment and credit risk guidelines. The exchange on which the futures are traded assumes counterparty risk and generally requires margin payments to minimize such risk.

The BGI-managed accounts may also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through a securities lending collateral pool. Those instruments are held to create "synthetic cash transactions." Generally, synthetic cash transactions involve investing in one or more instruments that taken either individually or together have an interest rate, credit, or liquidity exposure similar to that of a conventional money market instrument. This may be so even though none of the individual instruments themselves have money market risk. Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. As of December 31, 2006, the portfolio had no foreign exchange contracts. Swap agreements provide for periodic payments between parties based on the net difference in cash flows of underlying assets, indexes, or rates. To reduce the risk of counterparty nonperformance, the collateral pool generally enters into these contracts with institutions deemed to meet high standards of credit worthiness.

BGI mitigates its legal risk of derivative financial instruments by using them only in the accounts for which they are authorized. BGI manages its exposure to market risk within risk limits set for the accounts by buying and selling instruments or entering into offsetting positions. The following table discloses the futures contracts held and the derivatives held indirectly in the security lending collateral pool as of December 31, 2006 (amounts in thousands):

	Notional Amount
Equity Index Fund	
Futures directly held……...	$ 3,945
Derivatives held indirectly in security lending cash collateral funds…….	21,417
Extended Market Fund	
Futures directly held……...	2,084
Derivatives held indirectly in security lending cash collateral funds…….	21,900
EAFE Equity Index Fund	
Futures directly held……...	3,993
Derivatives held indirectly in security lending cash collateral funds…….	4,909

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Public School Employees' Retirement System (PSERS)

The PSERS enters into a variety of financial contracts, which include options and futures. The PSERS also enters into foreign exchange positions, such as forward and spot contracts to obtain or hedge foreign currency exposure; swap agreements to gain exposure to certain sectors of the equity and fixed income markets; collateralized mortgage obligations (CMOs); other forward contracts, and U.S. Treasury STRIPS. The PSERS is not a dealer, but an end-user of these instruments. The contracts are used primarily to enhance performance and reduce the volatility of the portfolio. The PSERS is exposed to credit risk in the event of non-performance by counterparties to financial instruments. As the PSERS generally enters into transactions only with high quality institutions, no losses associated with counterparty nonperformance on derivative financial instruments have been incurred. Legal risk is mitigated through selection of executing brokers and review of all documentation. The PSERS is exposed to market risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to market risk is managed in accordance with risk limits set by senior management, through buying or selling instruments or entering into offsetting positions.

The notional or contractual amounts of derivatives indicate the extent of the PSERS' involvement in the various types and uses of derivative financial instruments and do not measure the PSERS' exposure to credit or market risks and do not necessarily represent amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amounts and the other terms of the derivatives.

The following table summarizes the aggregate notional or contractual amounts for the PSERS' derivative financial instruments at June 30, 2007 (amounts in thousands):

Type of Derivative	Notional Value
Futures contracts – long……..	$ 11,887,271
Futures contracts – short……..	4,528,407
Foreign exchange forward and spot contracts, gross……..	21,675,965
Options – calls purchased…….	1,622,129
Options – puts purchased…….	278,896
Options – calls sold……..	1,675,223
Options – puts sold……	363,893
Swaps – total return……..	949,347
Swaps – interest rated……..	183,000

Futures contracts are contracts in which the buyer agrees to purchase and the seller agrees to make delivery of a specific financial instrument at a predetermined date and price. Gains and losses on future contracts are settled daily based on a notional (underlying) principal value and do not involve an actual transfer of the specific instrument. Futures contracts are standardized and are traded on exchanges. The exchange assumes the risk that a counterparty will not pay and generally requires margin payments to minimize such risk. In addition, the PSERS enters into short sales, sales of securities it does not presently own, to neutralize the market risk of certain equity positions. Initial margin requirements on futures contracts and collateral for short sales are provided by investment securities pledged as collateral and by cash held by various brokers. Although the PSERS has the right to access individual pledged securities, it must maintain the amount pledged by substituting other securities for those accessed. The value of securities pledged and the amount of cash held at June 30, 2007 represent a restriction on the amount of assets available as of year-end to use for other purposes.

Option contracts provide the option purchaser with the right, but not the obligation, to buy or sell the underlying security at a set price during a period or at a specified date. The option writer is obligated to buy or sell the underlying security if the option purchaser chooses to exercise the option. The System generally uses exchange listed currency, index, stock, and futures options. The PSERS has authorized an investment manager to write covered call stock index option spreads up to a notional amount of $1.5 billion.

Foreign exchange contracts involve an agreement to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The $21,676 million of foreign currency contracts outstanding at June 30, 2007 consists of "buy" contracts, which represent the U.S. dollar equivalents of commitments to purchase foreign currencies of $9,327 million and "sell" contracts, which represent U.S. dollar equivalents of commitments to sell foreign currencies of $12,348 million. The unrealized gain on contracts of $26 million at June 30, 2007 is included in the PSERS' net assets and represents the fair value of the contracts. The PSERS' has authorized an investment manager to manage a currency hedge portfolio consisting of foreign exchange spot and forward contracts, currency futures, and currency options to hedge up to a notional amount of $5.1 billion of the MSCI-EAFE Index currencies to U.S. dollars.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Swap agreements provide for periodic payments at predetermined future dates between parties based on the change in value of underlying indexes or interest rates. During the fiscal year ended June 30, 2007, the PSERS entered into total return swaps and interest rate swaps. Under the total return swap arrangements, the PSERS receives the net return of certain equity indexes in exchange for a short-term rate minus a spread. The payable on the total return swap contracts of ($7.11 million) at June 30, 2007 is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from January 30, 2008 to April 11, 2008. Interest rate swap agreements involve the exchange by the PSERS with another party of their respective commitments to pay or receive interest, e.g. an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal. The PSERS uses interest rate swaps as the most cost-effective way to gain exposure to certain sectors of the fixed income market. The receivable on the interest rate swap contracts of $2.424 million at June 30, 2007 is included in the Statements of Plan Net Assets and represents the fair value of the contracts. The contracts have varying maturity dates ranging from April 15, 2010 to April 15, 2028.

The PSERS also invests in mortgage-backed securities (MBS) such as CMOs and MBS forwards to maximize yields. These securities are sensitive to prepayments of mortgages, which may result from a drop in interest rates. The MBS forwards are subject to credit risk in the event of nonperformance by counterparties. The fair value of CMOs at June 30, 2007 is $2.6 billion.

The PSERS invests in U.S. Treasury STRIPS, which essentially act as zero coupon bonds and are subject to market volatility from an increase or decrease in interest rates.

Through certain collective trust funds, the PSERS also indirectly holds various derivative financial instruments. The collective trust funds invest in futures and options thereon; forward foreign currency contracts; options; interest rates, currency, equity, index, and total return swaps; interest-only STRIPS, and CMOs, to enhance the performance and reduce the volatility of their portfolios.

Discretely Presented Component Units

Authority for Deposits and Investments

Component unit organizations typically control receipt and disbursement of their own deposits, often through a trustee. Enabling legislation provides varying authority for investments; several component unit organizations participate in the TIP.

Deposit Risks

At June 30, 2007, the Pennsylvania Higher Education Assistance Agency had $15,900 of deposits with financial institutions in excess of federal depository insurance limits that were uninsured and collateralized following an agreement to pledge assets on a pooled basis to secure public deposits in Pennsylvania. The Pennsylvania Housing Finance Agency had $830,219 of cash deposits that were uninsured and collateralized with securities held by the pledging financial institution, its trust department or agent, but not in their name. Commonwealth Financing Authority had $335,234 in deposits that were uninsured and collateral held by pledging bank's trust department not in the Authority's name. At June 30, 2007, the State System of Higher Education had $1,107 uninsured and uncollateralized deposits; and $19,798 uninsured and uncollateralized deposits, but covered under the collateralization provisions of the Commonwealth of Pennsylvania Act 72 of 1971, as amended. The Philadelphia Regional Port Authority had $395 in deposits uninsured but collateralized by the financial institution and $1 in deposits that were uncollateralized. The Pennsylvania Infrastructure Investment Authority disclosed $399 in deposits that were uninsured and uncollateralized and included both cash and U.S. Treasury money market funds. The Insurance Fraud Prevention Authority had deposits of $254 that were uncollateralized (amounts in thousands).

Investment Risks

Risk Management Policies: At June 30, 2007 component unit policies for certain risks are established by governing boards; policies for the Pennsylvania Turnpike Commission are established by its bond indentures. Most of the organizations' policies address credit quality risk by establishing minimum NRSRA ratings for allowable investment purchases. Concentration risk is also avoided by most of the organizations by limiting the concentration of investments in any one issuer. Some organizations have policies in place that prohibit a certain percent of the overall portfolio, whereas others determine concentration limits based on security type. Custodial credit risk is typically avoided through registration. The Pennsylvania Higher Education Assistance Agency investment policy does not contain requirements that limit the exposure to custodial credit risk.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Investments by Type

At June 30, 2007 the discretely reported component units disclosed a total of $3,496,120 in investments. This consists of approximately 99 percent fixed income securities ($3,470,625), and the remaining 1 percent consists of common stock ($2,805), mutual funds ($22,561), preferred stock ($23), and cash and cash equivalents ($106). The investment types and related amounts are as follows (amounts in thousands):

Investment Type	Amount
Asset-backed securities…….	$ 48,294
Cash and cash equivalents……	106
Commercial paper…….	310,452
Common stock securities……..	2,805
Corporate obligations……	282,331
Fixed income mutual funds……..	3,861
Guaranteed investment contracts……..	281,049
Money market mutual funds…..……...	166,861
Mortgage-backed securities……..	140,807
Mutual funds…….	22,561
Preferred securities……...	23
Repurchase agreements……	225,556
State and municipal obligations……	25,958
Treasury Investment Program……...	509,613
U.S. government agency obligations……	1,353,338
U.S. Treasury obligations…….	122,505
Total……..	**$ 3,496,120**

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event a counterparty fails to uphold their agreement to a transaction, with any of the discretely presented component units, they would not be able to recover the value of investment or collateral securities in the possession of an outside party. At June 30, 2007 the Pennsylvania Higher Education Assistance Agency had $11,970 in U.S. government agency obligations and $85,924 in commercial paper subject to custodial credit risk that were held by the same counterparty that was used to buy the securities (amounts in thousands).

Concentration Risk: Concentration risk is the risk of loss attributed to the magnitude of the organizations' investment in a single issuer. Several of the organizations limit concentration to five percent or more of their total investments, with the exception of U.S. Treasury and U.S. Government Agencies. The State System of Higher Education has policies that do not limit the concentration in any single issuer for corporate bonds, collateralized mortgage obligations, and asset-backed securities. The Pennsylvania Housing Finance Agency has not established a formal concentration risk policy. Also, among the organizations, the following concentrations existed as of June 30, 2007 (May 31, 2007 for the Pennsylvania Turnpike Commission) (amounts in thousands):

Issuer	PA Turnpike Commission	PA Higher Education Assistance Agency
Federal Home Loan Bank……...	$ 234,448	$ -
Federal Home Loan Mortgage Corporation……	159,348	-
Federal National Mortgage Association…….	266,165	-
IXIS Funding……...	-	51,064
MBIA, Inc……...	-	65,620
Trinity Plus Funding Company…….……..	-	83,326

Credit Quality Risk: At June 30, 2007, $3,470,625 of total discretely presented component unit investments of $3,496,120 are fixed income investments, susceptible to credit quality rating. Of the amount of fixed income securities susceptible to credit quality rating, $2,121,317 are rated and $1,349,308 of fixed income investments do not have ratings available. The following

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

table discloses aggregate fair value, by Moody's or Standard and Poor's credit quality rating category, at June 30, 2007 (May 31, 2007 for Pennsylvania Turnpike Commission) (amounts in thousands):

Moody's Investor Services[a]	**Amount**
Aaa……....	$ 654,071
Aa…….	287,472
A……..	7,018
Baa……...	7,924
P-1……	224,528
Moody's Investor Services subtotal……...	**$ 1,181,013**
Standard and Poor's	
AAA…….	$ 759,235
AA……	19,964
A-1+…….	90,894
A-1……...	70,211
Standard and Poor's subtotal……	**$ 940,304**
Rated subtotal……	**$ 2,121,317**

Unrated	**Amount**
U.S. government agency obligations[b.]…….	$ 391,174
U.S. Treasury obligations[c]……...	122,505
Treasury Investment Program……..…….	509,613
Other…..……	326,016
Unrated subtotal..……	**$ 1,349,308**
Total Fixed Income Investments..…..……	**$ 3,470,625**

[a] The Moody's rating represents all of the securities that fall within subcategories of the ratings shown in this table. For example, a security with a rating of Baa1 is shown as a rating of Baa in this table.

[b] U.S. government agency obligations rating is assigned to securities issued by Government Sponsored Enterprises (GSEs) and government-owned corporations. Some widely known GSEs include Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and several other entities. Agency (or GSE) bonds are not normally rated. GSE bonds are not explicitly backed by the full faith and credit of the U.S. Government but they have implied government backing and an implied Aaa/AAA rating.

[c] U.S. Treasury obligations rating is assigned to securities issued by the U.S. Treasury. They are negotiable debt obligations of the U.S. Government secured by its full faith and credit. U.S. Treasury bonds are not usually rated by the NRSRA.

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Interest Rate Risk: Interest rate risk is managed using different techniques: weighted average maturity, maximum maturity dates, effective duration, modified duration or operational cash needs. The following table discloses option-adjusted duration (in years) by investment type for the fixed income portfolio of the discretely presented component units, excluding the Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, and the Pennsylvania Industrial Development Authority, at June 30, 2007 (May 31, 2007 for the Pennsylvania Turnpike Commission) (amounts in thousands):

Investment Type	Amount	Option-Adjusted Duration	Securities with no Duration
Asset-backed securities……	$ 48,294	1.098	$ -
Commercial paper……	224,528	0.050	-
Corporate obligations……...	257,016	1.160	51
Fixed income mutual funds……..	3,861	4.630	-
Guaranteed investment contracts…….	16,827	0.481	-
Mortgage-backed securities……..	140,807	4.803	-
Repurchase agreements…….....	-	n/a	131,026
State and municipal obligations……..	25,958	5.523	-
Treasury Investment Program..……...	439,540	0.083	-
U.S. government agency obligations……	1,064,413	2.914	291
U.S. Treasury obligations…….	70,998	1.319	-
Total…….	**$ 2,292,242**		**$ 131,368**

The Pennsylvania Higher Education Assistance Agency, the Pennsylvania Housing Finance Agency, and the Pennsylvania Industrial Development Authority do not use option-adjusted duration as a means of managing interest rate risk; the following provides segmented time distribution for those organizations at June 30, 2007 (amounts in thousands):

Investment Type	Matures in Less than 1 Year	Matures in 1 to 5 Years	Matures in 6 to 10 Years	Matures in More than 10 Years	Total
Commercial paper…….	$ 85,924	$ -	$ -	$ -	$ 85,924
Corporate obligations……	4,216	12,998	6,565	1,485	25,264
Guaranteed investment contracts……..	193,549	65,620	-	5,053	264,222
Money market mutual funds…..……	166,861	-	-	-	166,861
Repurchase agreements……..	94,530	-	-	-	94,530
Treasury Investment Program…..……	70,073	-	-	-	70,073
U.S. government agency obligations……	42,868	202,460	451	42,855	288,634
U.S. Treasury obligations……..	582	53	44,323	6,549	51,507
Total…….	$ 658,603	$ 281,131	$ 51,339	$ 55,942	$ 1,047,015

Foreign Currency Risk: Foreign currency risk is the risk of an investment's value changing, advantageously or adversely, due to changes in currency exchange rates. The State System of Higher Education disclosed that $29 of local investments were exposed to foreign currency risk. The amounts invested, by currency, are as follows (amounts in thousands):

Foreign Currency	Amount
Euro Currency Unit…….	$ 22
British Pound Sterling…….	7
Total……..	**$ 29**

NOTE D – DEPOSITS, INVESTMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (continued)

Financial Instruments with Off-Balance Sheet Risk

As of June 30, 2007, the Pennsylvania Housing Finance Agency, the Pennsylvania Turnpike Commission, the Pennsylvania Higher Education Assistance Agency, the Philadelphia Regional Port Authority, and the Pennsylvania Industrial Development Authority all had financial instruments with off-balance sheet risk. To obtain further information regarding the nature and notional value of the financial instruments refer to their separately audited and issued financial statements.

NOTE E – CAPITAL ASSETS

A summary of capital assets by category at June 30, 2007 is as follows (amounts in thousands):

	Primary Government				Discretely Presented
	Governmental Activities			Business-Type Activities	Component Units
	General Capital Assets	Internal Service Funds	Total Governmental Activities	Enterprise Funds	
Land	$ 431,003	$ 6	$ 431,009	$ 323	$ 220,508
Highway right-of-way	1,567,684	-	1,567,684	-	-
Buildings	5,481,642	5,530	5,487,172	40,656	2,345,481
Improvements other than buildings	477,506	421	477,927	-	218,092
Machinery and equipment	744,506	99,823	844,329	115,350	715,676
Library books and other	-	-	-	-	137,882
Turnpike infrastructure	-	-	-	-	4,362,098
Bridge infrastructure	7,421,580	-	7,421,580	-	-
Highway infrastructure	18,109,439	-	18,109,439	-	-
Waterway infrastructure	19,650	-	19,650	-	-
Other infrastructure	9,663	-	9,663	-	-
Construction in progress	404,350	-	404,350	4,813	245,182
Highway and bridge construction in progress	1,795,882	-	1,795,882	-	1,194,364
Total	$ 36,462,905	$ 105,780	$ 36,568,685	$ 161,142	$ 9,439,283

Changes in general capital assets for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Non-Depreciable General Capital Assets:				
Land	$ 314,855	$ 116,173	$ 25	$ 431,003
Highway right-of-way	1,475,916	91,768	-	1,567,684
Construction in progress	366,706	657,127	619,483	404,350
Transportation construction in progress	1,817,217	1,020,488	1,041,823	1,795,882
Subtotal	3,974,694	1,885,556	1,661,331	4,198,919
Depreciable General Capital Assets:				
Buildings	5,267,906	221,911	8,175	5,481,642
Improvements other than buildings	469,044	9,097	635	477,506
Machinery and equipment	692,808	73,310	21,612	744,506
Highway infrastructure	16,965,413	1,145,058	1,032	18,109,439
Bridge infrastructure	7,013,354	415,255	7,029	7,421,580
Waterway infrastructure	52	20,546	948	19,650
Other infrastructure	6,991	2,672	-	9,663
Subtotal	30,415,568	1,887,849	39,431	32,263,986
Total general capital assets	$34,390,262	$ 3,773,405	$ 1,700,762	$36,462,905

NOTE E – CAPITAL ASSETS (continued)

Changes in general capital assets accumulated depreciation for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Buildings	$ 1,944,378	$ 113,822	$ 280	$ 2,057,920
Improvements other than buildings	205,456	13,405	33	218,828
Machinery and equipment	365,448	44,249	19,057	390,640
Highway infrastructure	7,594,374	682,204	53	8,276,525
Bridge infrastructure	1,547,618	143,691	160	1,691,149
Other infrastructure	2,567	1,097	-	3,664
Total accumulated depreciation	$11,659,841	$ 998,468	$ 19,583	$ 12,638,726

Depreciation expense, by function, related to governmental activities capital assets for the fiscal year ended June 30, 2007 is as follows (amounts in thousands):

	General Capital Assets	Internal Service
Direction and supportive services	$ 24,098	$ 5,276
Protection of persons and property	68,726	1,218
Public education	22,465	-
Health and human services	12,128	-
Economic development	184	-
Transportation	858,941	-
Recreation and cultural enrichment	11,926	-
Total depreciation expense	$ 998,468	$ 6,494

Changes in Internal Service funds capital assets for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Non-Depreciable Capital Assets:				
Land	$ 6	$ -	$ -	$ 6
Subtotal	6	-	-	6
Depreciable Capital Assets:				
Buildings	3,521	2,009	-	5,530
Improvements other than buildings	317	104	-	421
Machinery and equipment	94,805	13,275	8,257	99,823
Subtotal	98,643	15,388	8,257	105,774
Total Internal Service fund capital assets	$ 98,649	$ 15,388	$ 8,257	$ 105,780

NOTE E – CAPITAL ASSETS (continued)

Changes in Internal Service fund capital assets accumulated depreciation for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Buildings	$ 1,611	$ 117	$ -	$ 1,728
Improvements other than buildings	203	14	-	217
Machinery and equipment	57,616	6,363	3,627	60,352
Total accumulated depreciation….	$ 59,430	$ 6,494	$ 3,627	$ 62,297

Changes in Enterprise fund capital assets for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Non-Depreciable Capital Assets:				
Land	$ 323	$ -	$ -	$ 323
Construction in progress	3,522	1,291	-	4,813
Subtotal	3,845	1,291	-	5,136
Depreciable Capital Assets:				
Buildings	40,014	642	-	40,656
Machinery and equipment	112,010	3,444	104	115,350
Subtotal	152,024	4,086	104	156,006
Total Enterprise fund capital assets	$ 155,869	$ 5,377	$ 104	$ 161,142

Changes in Enterprise fund capital assets accumulated depreciation for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Retirements	Balance June 30, 2007
Buildings	$ 13,655	$ 3,915	$ -	$ 17,570
Machinery and equipment	59,518	11,814	1,145	70,187
Total accumulated depreciation….	$ 73,173	$ 15,729	$ 1,145	$ 87,757

NOTE E – CAPITAL ASSETS (continued)

Construction in progress included in general capital assets at June 30, 2007 includes project information as follows (amounts in thousands):

	Project Authorization	Amounts Expended but not Capitalized at June 30, 2007	Authorization Available
Capitol Complex	$ 166,646	$ 61,915	$ 104,731
Department of Corrections Institutions	39,983	10,681	29,302
Educational Institutions	218,254	78,066	140,188
State Parks and Forests	74,824	38,605	36,219
State-wide Radio Project	143,216	142,828	388
Veterans Homes and Military Armories	53,446	12,715	40,731
Department of Public Welfare Institutions	30,644	10,533	20,111
Transportation Facilities	46,367	11,220	35,147
Historical and Museum Commission Facilities	22,497	15,516	6,981
State Police Facilities	2,692	1,301	1,391
Agriculture Facilities	5,043	905	4,138
Other	24,359	20,065	4,294
Total	$ 827,971	$ 404,350	$ 423,621

The Commonwealth's initial valuation of general capital assets was made as of June 30, 1986 using appraisal and historical cost reconstruction techniques. Subsequent to June 30, 1986, general capital asset acquisitions are reported at cost or, for donations or confiscations, at fair market value. At June 30, 2007 the amount of general capital assets related to the initial 1986 valuation amounted to $1,752 million and did not include highway, bridge or waterway infrastructure.

NOTE F – LONG-TERM OBLIGATIONS - BUSINESS-TYPE ACTIVITIES AND PROPRIETARY FUNDS

Tuition Benefits Payable

The reported liability for tuition benefits payable of $1,231,228 (amounts in thousands) of the **Tuition Payment Fund**, an Enterprise Fund, at June 30, 2007, is based on several actuarial assumptions, including those related to future sales of tuition credits, tuition cost increases, investment experience and program expenses for the Guaranteed Savings Plan of the Tuition Account Program. The June 30, 2007 actuarial analysis includes several changes in assumptions to reflect the current view of tuition inflation, updated expense projections and incorporation of the investment advisor's outlook regarding investment returns. The per-unit credit expense assumption was increased from 47 to 49 cents. The effect of this change decreased the aggregate actuarial reserve (actuarial value of assets less liabilities) by $25.5 million.

Insurance Loss Liability

The reported insurance loss liability of the **State Workers' Insurance Fund** (**SWIF**), an Enterprise Fund, is primarily based on historical claims experience. One of the assumptions used to determine the reported liability amount includes using a discount rate of 3.5 percent at December 31, 2006 and December 31, 2005. There is uncertainty as to whether the reported liability will be supported by future claim experience, including payments; this uncertainty must be considered when evaluating the reported insurance loss liability.

For the calendar years ended December 31, 2006 and 2005, the following summary provides information on prior year reported insurance loss liability, incurred claims and payments, and current year reported insurance loss liability (amounts in thousands).

Year Ended December 31	Prior Year Liability	Incurred Claims Current	Incurred Claims Prior	Payments Current	Payments Prior	Current Year Liability
2006	$1,426,177	$ 496,273	$ (45,826)	$ 69,983	$ 283,772	$1,522,869
2005	$1,373,810	$ 486,100	$ (162,258)	$ 59,105	$ 212,370	$1,426,177

Additionally, nonmajor Enterprise funds reported $1,002 of insurance loss liability at June 30, 2007 (amounts in thousands).

Compensated Absences

The reported compensated absence liability for the proprietary funds totaled $32,808 at June 30, 2007. Of that amount, the liability is primarily owed by the State Stores Fund ($26,770), the **State Worker's Insurance Fund** ($2,229), and the **State Lottery Fund** ($1,573), all enterprise funds. The following summary provides aggregated information reported on June 30, 2006 compensated absence liabilities; additions and reductions during the fiscal year ended June 30, 2007 and reported compensated absence liabilities at June 30, 2007 (amounts in thousands):

Liability at June 30, 2006	Additions	Reductions	Liability at June 30, 2007
$ 34,945	$ 20,747	$ 22,884	$ 32,808

Capital Lease Obligation

The **State Lottery Fund,** an Enterprise Fund, has entered into an agreement to lease vending machines used for lottery ticket sales. This agreement is an in-substance purchase (capital lease) and is reported as a capital lease obligation. The following is a schedule by fiscal year of future minimum payments under the capital lease agreement, together with the present value of the net minimum lease payments as of June 30, 2007 (amounts in thousands):

Fiscal year ending June 30	
2008	$ 12,159
2009	6,080
Total minimum lease payments	18,239
Less: amount representing interest	864
Total capital lease obligations	$ 17,375

At June 30, 2007 proprietary fund capital assets included $42.3 million of equipment being procured by this capital lease.

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE

Taxes Receivable: Taxes receivable at June 30, 2007 consisted of the following (amounts in thousands):

	Statement of Net Assets Governmental Activities		
	Current	Noncurrent	Total
Sales and use.....	$ 855,719	$ 243,287	$ 1,099,006
Personal income..	550,864	156,625	707,489
Corporation.....	346,955	728,499	1,075,454
Liquid fuels.....	178,355	-	178,355
Inheritance.....	332,500	113,601	446,101
Cigarette.....	56,729	-	56,729
Other.....	24,400	-	24,400
Total.....	$ 2,345,522	$ 1,242,012	$ 3,587,534

	Fund Financial Statements						
	General Fund				Motor License Fund	Nonmajor Governmental Funds	Fiduciary Funds
	Expected to be Collected						
	By August 31, 2007	From September 1, 2007 through June 30, 2008	After June 30, 2008	Total	Expected to be Collected by August 31, 2007	Expected to be Collected by August 31, 2007	Expected to be Collected by August 31, 2007
Sales and use.....	$ 776,044	$ 79,675	$ 243,287	$ 1,099,006	$ -	$ -	$ 24,372
Personal income.....	406,286	144,578	156,625	707,489	-	-	-
Corporation.....	47,583	299,372	728,499	1,075,454	-	-	-
Liquid fuels.....	-	-	-	-	178,355	-	-
Inheritance.....	147,919	184,581	113,601	446,101	-	-	-
Cigarette.....	56,729	-	-	56,729	-	-	-
Other.....	-	-	-	-	-	24,400	620
Total.....	$ 1,434,561	$ 708,206	$ 1,242,012	$ 3,384,779	$ 178,355	$ 24,400	$ 24,992

On the governmental funds balance sheet, the **General Fund** taxes receivable of $1,950,218 expected to be collected after August 31, 2007 is reported as an unearned revenue liability. The total amount of taxes receivable reported on the governmental funds balance sheet, $2,345,522 ($2,142,767 reported in the **General Fund**, $178,355 reported in the **Motor License Fund**, and $24,400 reported in nonmajor governmental funds), expected to be collected from July 1, 2007 through June 30, 2008 is also reported as current taxes receivable in governmental activities on the Statement of Net Assets. The remaining **General Fund** taxes receivable of $1,242,012 reported on the governmental funds balance sheet expected to be collected after June 30, 2008 is reported as noncurrent taxes receivable in governmental activities on the Statement of Net Assets. All of the revenue associated with the taxes receivable reported in governmental activities on the Statement of Net Assets is reported as tax revenue in governmental activities on the Statement of Activities.

Loans Receivable: Loans receivable at June 30, 2007 consisted of the following (amounts in thousands):

	Primary Government				
	Governmental Activities		Business Type Activities		
	General Fund	Special Revenue Funds	Enterprise Funds	Fiduciary Funds	Discretely Presented Component Units
Mortgage loans.....	$ -	$ -	$ -	$ -	$ 4,064,001
Student loans.....	-	-	-	-	11,528,163
Economic development loans.....	13,506	19,755	209,984	-	731,987
Drinking water, storm water and sewer system loans	-	12,330	-	-	1,825,607
Volunteer fire company loans	-	-	110,013	-	-
Environmental program loans	-	12,908	-	-	-
Other notes and loans	110	-	-	2,030	4,608
	13,616	44,993	319,997	2,030	18,154,366
Less: allowance for uncollectible amounts.....	2,503	5,134	38,070	-	277,768
Loans receivable, net.....	$ 11,113	$ 39,859	$ 281,927	$ 2,030	$ 17,876,598

NOTE G - TAXES, LOANS AND LEASE RENTALS RECEIVABLE (continued)

The **General Fund** reports $5,356 in loans due after June 30, 2008, Special Revenue funds report $34,893 in loans due after June 30, 2008 and the Enterprise funds report $233,706 in loans due after June 30, 2008. Discretely presented component units reported $16,079,816 in loans receivable due after June 30, 2008 (amounts in thousands).

The **General Fund** reported $11,113 in loans receivable for program objectives, all of which represented governmental activities lending and of which, $5,356 is due after June 30, 2008. Agency Funds reported $2,030 in loans receivable to replace underground storage tanks, of which $1,812 is due after June 30, 2008 (amounts in thousands).

Lease Rentals Receivable: The Capital Facilities Fund, a Capital Projects fund, reports expenditure amounts related to construction projects for educational institutions funded through the issuance of general obligation bonds, the principal and interest of which are paid through the collection of lease rental payments and deposited in the Capital Debt Fund, a Debt Service fund. At the conclusion of the lease terms, the project facilities are conveyed to the educational institutions. Accordingly, these lease arrangements are classified as direct financing leases. Lease rental receivables and associated deferred revenue equal to the principal lease payments to be received are recorded in the Capital Debt Fund. At June 30, 2007 the total remaining minimum lease payments to be received were $834, consisting of principal present value of $652 and interest of $182 (amounts in thousands).

The Pennsylvania Industrial Development Authority, a discretely presented component unit, reported a lease rental receivable with total remaining minimum payments to be received of $15.4 million, consisting of principal present value of $14.5 million and interest of $.9 million at June 30, 2007.

Minimum lease payments receivable for the four fiscal years succeeding June 30, 2007 are as follows (amounts in thousands):

Fiscal Year Ending June 30	Primary Government	Discretely Presented Component Units
2008	$ 194	$ 6,582
2009	194	3,517
2010	127	3,517
2011	-	1,759

Except for $194 owed to the primary government and $6,582 owed to discretely presented component units, all amounts receivable under lease rentals are due after June 30, 2008 (amounts in thousands).

Governmental Funds Unearned Revenue: The **General Fund**, Special Revenue Funds, and Debt Service Funds reported unearned revenue at June 30, 2007. The following chart provides the portion of total unearned revenue which was 1) unavailable or 2) not yet earned as of June 30, 2007 (amounts in thousands):

	General	Special Revenue	Debt Service
Unavailable	$ 1,950,218	$ 24,520	$ 4,031
Unearned	64,212	211,753	-
Total unearned revenue	$ 2,014,430	$ 236,273	$ 4,031

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS

Statement of Net Assets

Internal Balances

In the Statement of Net Assets, reported internal balances of ($88,181)/$87,331 for governmental activities/business-type activities differ by $850 because the **State Workers' Insurance Fund**, an Enterprise Fund, reports for its fiscal year ended December 31, 2006.

Fund Financial Statements

Interfund Balances

The composition of governmental and proprietary funds interfund balances reported at June 30, 2007 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental funds receivables from other funds and from component units, respectively, amount to $49,149 and $25,570; aggregate nonmajor enterprise funds receivables amount to $2,902 and $6; aggregate internal service funds receivables amount to $11,125 and $606 (amounts in thousands):

	DUE FROM		DUE TO	
FUND TYPE/FUND PRIMARY GOVERNMENT	OTHER FUNDS	COMPONENT UNITS	OTHER FUNDS	COMPONENT UNITS
General Fund	$ 30,378	$ 1,198	$ 58,805	$ 2,427
Special Revenue:				
Motor License Fund	1,220	-	23,654	6,695
Tobacco Settlement Fund	-	-	988	-
Gaming Fund	-	-	27	-
State Racing Fund	-	-	1,791	-
Vocational Rehabilitation Fund	-	-	3,233	12
Pharmaceutical Assistance Fund	12,150	-	508	-
Agricultural Conservation Easement Purchase Fund	10,243	-	-	-
Public Transportation Assistance Fund	7,323	-	4	-
Other Funds	214	-	1,150	-
	31,150	-	31,355	6,707
Capital Projects:				
Capital Facilities Fund	11,697	25,570	4	-
Keystone Recreation, Park and Conservation Fund	7,522	-	8,440	-
	19,219	25,570	8,444	-
Enterprise:				
Unemployment Compensation Fund	3,235	428	10	-
State Lottery Fund	-	-	301	-
Tuition Payment Fund	-	-	6	-
State Stores Fund	29	-	3,429	-
Rehabilitation Center Fund	2,792	-	27	-
Other Funds	81	6	84	-
	6,137	434	3,857	-
Internal Service:				
Purchasing Fund	8,610	603	303	-
Manufacturing Fund	2,515	3	44	-
	11,125	606	347	-
Fiduciary - Pension Trust:				
State Employees' Retirement System	3,836	2,959	270	-
Public School Employees' Retirement System	2,068	-	5,468	-
Deferred Compensation Fund	-	-	103	-
	5,904	2,959	5,841	-
Total primary government	$ 103,913	$ 30,767	$ 108,649	$ 9,134

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

DISCRETELY PRESENTED COMPONENT UNITS	DUE FROM PRIMARY GOVERNMENT	DUE FROM COMPONENT UNITS	DUE TO PRIMARY GOVERNMENT	DUE TO COMPONENT UNITS
Pennsylvania Turnpike Commission	$ 7,400	$ -	$ -	$ -
Pennsylvania Infrastructure Investment Authority	-	51	96,425	30
Pennsylvania Housing Finance Agency	-	30	4	51
Pennsylvania Higher Education Assistance Agency	-	-	136	-
State System of Higher Education	57	-	18,575	-
Patient Safety Trust Authority	2,255	-	4	-
Commonwealth Financing Authority	-	-	359	-
Other component units	-	-	35	-
Total component units	$ 9,712	$ 81	$ 115,538	$ 81

The amount of total reported interfund receivables of $144,473 does not agree with total reported interfund payables of $233,402 at June 30, 2007 due to different fiscal year ends and reporting differences for certain Funds included in the Fund Financial Statements at June 30, 2007. The amount reported for the Pennsylvania Turnpike Commission, a discretely presented component unit, is reported at its fiscal year ended May 31, 2007; the State Stores Fund, an Enterprise Fund, is reported at its fiscal year ended June 26, 2007; the amounts reported as interfund balances for the State Employees' Retirement System and Deferred Compensation Fund, Pension Trust Funds, the INVEST Program for Local Governments, an Investment Trust Fund, and the **State Workers' Insurance Fund**, an Enterprise Fund, are reported at their fiscal years ended December 31, 2006. The following presents a reconciliation of interfund balances reported at June 30, 2007 and those amounts that would have been reported if all Funds reported at the same fiscal year end (amounts in thousands):

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due from other funds	$ 78,781	$ 16,296	$ 1,987	$ -	$ 97,064
Due from pension trust funds	1,966	966	3,917	-	6,849
Due from component units	26,768	1,040	2,959	81	30,848
Due from primary government	-	-	-	9,712	9,712
Total	$ 107,515	$ 18,302	$ 8,863	$ 9,793	$ 144,473

Reported Interfund Receivables	$ 144,473
State Employees' Retirement System decrease in receivables from January 1, 2007 through June 30, 2007	(1,531)
Pennsylvania Turnpike Commission decrease in receivables from June 1, 2007 through June 30, 2007	(749)
Interfund receivables reported as accounts receivable by component units	172
Interfund receivables reported as tax receivables by Fiduciary Funds	685
Payroll accrual at June 30, 2007 – receivables attributable to State Employees' Retirement System	6,765
General Fund receivable from Pennsylvania Infrastructure Investment Authority (full accrual)	96,332
Reconciled Interfund Receivables	$ 246,147

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Component Units	Total
Due to other funds	$ 90,751	$ 3,956	$ 852	$ -	$ 95,559
Due to pension trust funds	7,853	248	4,989	-	13,090
Due to component units	9,134	-	-	81	9,215
Due to primary government	-	-	-	115,538	115,538
Total	$ 107,738	$ 4,204	$ 5,841	$ 115,619	$ 233,402

Reported Interfund Payables	$ 233,402
State Employees' Retirement System increase in payables from January 1, 2007 through June 30, 2007	2,310
Deferred Compensation Fund decrease in payables from January 1, 2007 through June 30, 2007	(95)
Pennsylvania Turnpike Commission increase in payables from June 1, 2007 through June 30, 2007	178
State Workers' Insurance Fund increase in payables from January 1, 2007 through June 30, 2007	370
INVEST Program for Local Governments increase in payables from January 1, 2007 through June 30, 2007	22
Interfund payables reported as accounts payable by component units	8,448
Interfund payables reported as accounts payable by Fiduciary Funds	1,512
Reconciled Interfund Payables	$ 246,147

Advances – Fund Financial Statements

At June 30, 2007 the **General Fund** reported Advances to Other Funds of $114,108. Specifically, this amount has been advanced as follows: $2,300 to the **State Workers' Insurance Fund** and $85,000 to the State Stores Fund, Enterprise Funds; $2,175 to the **Motor License Fund** and $10,333 to the Pharmaceutical Assistance Fund, Special Revenue Funds; and, $14,300 to the Purchasing Fund, an Internal Service Fund. These amounts have been reported by the respective owing Funds as Advances from Other Funds, except for the **State Workers' Insurance Fund**, which reported an advance of $1,820 at its fiscal year ended December 31, 2006. At June 30, 2007 the Hazardous Sites Cleanup Fund, a Special Revenue Fund, reported an Advance to Other Funds of $3,000. This amount was advanced to the Small Business First Fund, an Enterprise Fund. All amounts advanced are expected to be repaid subsequent to June 30, 2008. The Underground Storage Tank Indemnification Fund, an Agency Fund, reported a $76,500 statutory advance to the **General Fund** at June 30, 2007. Subsequent to June 30, 2008, $70,500 (amounts in thousands) are expected to be repaid.

Primary Government Transactions with Discretely Presented Component Units

During the fiscal year ended June 30, 2007 (May 31, 2007 for PA Turnpike Commission), Commonwealth support reported by the discretely presented component units is (amounts in thousands):

State System of Higher Education (appropriation, grant, subsidy)	$ 626,511
PA Higher Education Assistance Agency (appropriation, grant, subsidy)	$ 452,003
PA Turnpike Commission (oil franchise tax, vehicle registration fees)	$ 95,071
Ben Franklin Technology Development Authority (appropriation, grant, subsidy)	$ 50,200
PA Infrastructure Investment Authority (capital contribution)	$ 13,148

Assigned Investment Income: Certain assigning Funds, as follows, receive but do not financially report investment income that is assigned to (and reported by) another Fund for legal or contractual reasons. Investment income and related interfund transfers are reported by those Funds which assign/receive investment income for other than legal/contractual reasons (in thousands).

Assigning Fund	Receiving Fund	Reason	Amount
Liquor License	**General**	Legal/contractual	$ 105
Liquid Fuels Tax	**Motor License**	Legal/contractual	$ 580
Land and Water Development	Land and Water Development Sinking	Legal/contractual	$ 90
Remining Financial Assurance	Land and Water Development Sinking	Other than legal/contractual	$ 196
Fire Insurance Tax	State Insurance	Legal/contractual	$ 2,142

NOTE H – INTERNAL/INTERFUND BALANCES AND TRANSFERS (continued)

Transfers

A summary of transfers reported for the fiscal year ended June 30, 2007 is as follows, with Major Fund titles in bold. Aggregate nonmajor governmental fund transfers from other funds amounted to $1,263,058 during the fiscal year ended June 30, 2007 and include a $204,000 transfer from the **State Lottery Fund** to the Pharmaceutical Assistance Fund. Aggregate nonmajor governmental fund transfers to other funds amount to $170,626. Aggregate nonmajor proprietary fund transfers to other funds amount to $169,500 (amounts in thousands):

PRIMARY GOVERNMENT	TRANSFERS IN	TRANSFERS OUT
General Fund	$ 200,564	$ 945,904
Special Revenue:		
Tobacco Settlement Fund	-	26,898
Motor License Fund	-	45,351
State Racing Fund	-	1,678
Vocational Rehabilitation Fund	38,083	-
Pharmaceutical Assistance Fund	230,898	-
Community College Capital Fund	42,006	-
Environmental Stewardship Fund	-	38,210
Hazardous Sites Cleanup Fund	30,000	-
Gaming Fund	-	125,000
Agricultural Conservation Easement Fund	8,210	-
Educational Assistance Program Fund	8,100	-
Other Funds	15,207	5,738
	372,504	242,875
Debt Service:		
Land and Water Development Sinking Fund	25	-
Water Facilities Loan Redemption Fund	2,058	-
Capital Debt Fund	862,447	-
Local Criminal Justice Sinking Fund	918	-
Agricultural Conservation Easement Sinking Fund	1,885	-
Keystone Recreation, Park and Conservation Sinking Fund	776	-
Disaster Relief Redemption Fund	1,958	-
Pennsylvania Economic Revitalization Sinking Fund	506	-
Volunteer Companies Loan Sinking Fund	616	-
Pennsylvania Infrastructure Investment Authority Redemption Fund	7,142	-
Growing Greener Bond Sinking Fund	9,400	-
Water Supply and Wastewater Treatment Sinking Fund	2,823	-
	890,554	-
Enterprise:		
State Lottery Fund	100,000	204,000
Unemployment Compensation Fund	-	3,400
State Stores Fund	-	152,000
Pennsylvania Infrastructure Bank Fund	2,057	-
	102,057	359,400
Internal Service:		
Manufacturing Fund	-	17,500
Total transfers, fund financial statements	1,565,679	1,565,679
Less: net elimination of governmental fund transfers	(1,308,336)	(1,308,336)
Total transfers, Statement of Activities	$ 257,343	$ 257,343

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS

Pension Systems

Commonwealth laws established contributory defined benefit pension plans covering substantially all Commonwealth and public school employees. Generally, Commonwealth employees are members of the State Employees' Retirement System (SERS) and public school employees are members of the Public School Employees' Retirement System (PSERS). Both the SERS and the PSERS are reported as Pension Trust Funds, Fiduciary funds. Both the SERS and the PSERS issue stand-alone, audited financial statements, which are available to the public. Written requests for SERS or PSERS financial statements and other financial statement inquiries should be directed to the following addresses:

State Employees' Retirement System
30 North Third Street, Suite 150
Harrisburg, PA 17101-1716

Public School Employees' Retirement System
Bureau of Communications
P.O. Box 125
Harrisburg, PA 17108-0125

State Employees' Retirement System

Plan Description: The SERS is the administrator of a cost-sharing multiple-employer defined benefit retirement system established to provide pension benefits for employees of state government and certain other organizations. At December 31, 2006 there were 108 employer state agencies and other organizations participating in the SERS. The SERS provides retirement, death, and disability benefits.

Retirement Benefits: Article II of the Pennsylvania Constitution provides the General Assembly the authority to establish and amend benefit provisions. Retirement benefits generally vest after five years of credited service. Employees who retire at age 60 with three years of service, or with 35 years of service if under age 60, are entitled to a normal (unreduced) annual retirement benefit. Members of the General Assembly and certain employees classified in hazardous duty positions can retire with full benefits at age 50 with at least three years of service.

Act 2001-9 (Act 9), signed into law on May 17, 2001 established Class AA membership whereby, generally, annual full retirement benefits for electing active members is 2.5 percent of the member's highest three-year average salary (final average salary) multiplied by years of service. State employees hired after June 30, 2001 are Class AA members. Members hired before May 17, 2001 had the option, but were not required, to elect Class AA membership. Substantially all eligible members chose the Class AA option. For legislators in office on May 17, 2001 Act 9 established Class D-4 membership whereby the general annual benefit is 3 percent of final average salary for each year of service.

The general annual benefit for full retirement for Class A members is 2 percent of the member's highest three-year salary multiplied by years of service. State police troopers are entitled to an annual benefit equal to a percentage of their highest annual salary (excluding their year of retirement). The annual benefit is 75 percent of salary for 25 or more years of service and 50 percent of salary for 20-24 years of service. Judges are entitled to a benefit of 4 percent of final average salary for each of the first 10 years of service and 3 percent for subsequent years. District Justices are entitled to a benefit of 3 percent of final average salary for each year of service.

Funding Policy: Commonwealth law determines all member contribution rates. The active plan member contribution rate is 5 percent of covered payroll for most employees in Class A; for Class AA members, the contribution rate is 6.25 percent. Higher contributions are required for certain members of the General Assembly and judges and district justices who elect higher contribution rates. The SERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The employer rate-setting process is intended to provide employer contributions which, when combined with member contributions and investment returns, are adequate to pay benefits when due.

Act 9 provided that new benefits arising therefrom were to be funded over a ten-year period, with level dollar funding, beginning July 1, 2002. Act 9 also provided that all the existing actuarial assets and liabilities were to be combined and refinanced over a ten-year period using level dollar funding and future actuarial gains and losses were to be amortized using ten-year level dollar funding. On December 10, 2003, Governor Rendell signed Act 2003-40 (Act 40) into law. The significant provisions of the law were to change certain actuarial methods and periods used to amortize actuarial assets and liabilities.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Pursuant to Act 40, beginning July 1, 2005, the SERS established employer contribution rates which resulted in total 2005 and 2006 employer contributions which were lower than the minimum annual required contribution as defined by GASB Statement No. 25. Since the SERS is a cost-sharing multiple-employer defined benefit retirement system and all SERS-required employer contributions were made, no unfunded pension liability is reported by the Commonwealth as of June 30, 2007.

During each of the three years ended December 31, the annual required employer contributions (amounts in thousands) and the related percentage of that amount actually contributed are as follows (amounts in thousands):

Year ended December 31	Annual Required Contribution	Percentage Contributed
2006	$ 548,745	35.6
2005	$ 319,190	46.1
2004	$ 105,229	100.0

At December 31, 2006, the SERS disclosed no long-term contracts for contributions to the plan.

Summary of Significant Accounting Policies: The SERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employee salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the SERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. The investment in the Commonwealth Treasury short-term investment pool is reported at cost plus allocated interest, which approximates fair value. Collateral received under the Commonwealth Treasury securities lending program is reported at cost plus accrued interest, which approximates fair value. United States government obligations, corporate and foreign bonds and notes, and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued by the asset manager or third parties based on similar sales. The System has entered into certain swap contracts with a notional amount equivalent to the System's original investment in the absolute return fund-of-funds and global macro limited partnerships to provide S&P 500, Russell small/midcap, and Morgan Stanley's Europe, Australasia, and Far East (EAFE) indices returns. The combination of the swaps and the underlying investments result in a return consistent with an actively managed equity portfolio. Accordingly, those investments have been classified as common stocks and preferred stocks on the statement of net assets. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at the present value of the projected future net income stream.

Alternative investments, which include interests in limited partnerships invested in venture capital, leveraged buyouts, private equities, and other investments are valued based on estimated fair value amounts established by valuation committees, which are subject to an annual independent audit. The values for real estate and alternative investments are reported on a one-quarter lag (September 30), adjusted for cash flows through December 31. Foreign exchange and futures contracts are marked-to-market daily with changes in fair value recognized as part of investments and investment income. The fair values of swaps are determined no less than monthly based on the return of the underlying indices, which is generally exchanged for a short-term rate plus a spread.

The Collective Trust Funds (CTF) consists primarily of domestic and international institutional mutual and index funds. The funds do not pay interest or dividends to shareholders, and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund.

Unsettled investment sales are reported as investment proceeds receivable and unsettled investment purchases are reported as investment purchases payable. Investment expenses consist of investment managers' fees and those expenses directly related to the SERS' investment operations.

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Public School Employees' Retirement System

Plan Description: The PSERS is a cost-sharing multiple-employer defined benefit retirement system established to provide pension and other benefits for public school employee members. At June 30, 2007 there were 739 participating employers, generally school districts. The PSERS provides retirement, death, disability and health care benefits. In most cases, retirement benefits vest after 5 years of credited service. Members are eligible for full monthly retirement benefits upon reaching (a) age 62 with at least one year of service, (b) age 60 with 30 or more years of service, or (c) 35 or more years of service regardless of age.

Act 9 of 2001 provided for members to elect Membership Class T-D and convert from Membership Class T-C effective July 1, 2001. Benefits for full retirement are generally equal to 2 percent (Membership Class T-C) or 2.5 percent (Membership Class T-D) of the member's final average salary multiplied by number of years of credited service. The Commonwealth has the authority to establish or amend benefit provisions.

Funding Policy: The Public School Employees' Retirement Code provides that the PSERS Board has the authority to establish or amend periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll. The active plan member contribution rates for employees in Membership Class T-C and T-D hired before July 22, 1983 are 5.25 and 6.50 percent of covered payroll, respectively; for employees in Membership Class T-C and T-D hired after July 21, 1983, the rate are 6.25 and 7.50 percent, respectively. The increased member contribution rates for Class T-D became effective January 1, 2002. Commonwealth law determines member contribution rates.

Since 1995, employers defined as school entities (school districts, area vocational-technical schools, and intermediate units) are required to pay the entire employer contribution. The Commonwealth partially reimburses school entities in accordance with Act 29 of 1994. The amount of reimbursement is at least one half of the total employer contribution. For employers that are not school entities, the employer and the Commonwealth pay the employer contribution equally to the PSERS; no Commonwealth reimbursement occurs.

Act 40 of 2003 amended the actuarial cost method in three areas that affect employer contribution rates. Act 40 changed the amortization period from 10 years to 30 years for: unfunded liabilities accrued as a result of Act 9 of 2001; outstanding balances of net actuarial losses during the fiscal years ended June 30, 2001 and 2002; and net gains and losses in future years. Act 40 continued a 10-year amortization period for unfunded liabilities accrued prior to Act 9 of 2001; any future active member improvements; and any retiree cost-of-living adjustments. Finally, Act 40 established an employer contribution rate 'floor' of 4 percent, exclusive of the premium assistance contribution rate, beginning July 1, 2004.

During each of the three fiscal years ended June 30, the annual required employer contributions (in thousands) and the related percentage of that amount actually contributed are as follows:

Fiscal year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	$1,708,821	39
2006	$1,328,373	34
2005	$ 945,107	46

At June 30, 2007, the PSERS disclosed that $133,608 of $256,932 (in thousands) of member receivables for purchases of service credit is due subsequent to June 30, 2008.

Summary of Significant Accounting Policies: The PSERS financial statements are prepared on the accrual basis of accounting, whereby expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of the related trade date. Member and employer contributions are recognized in the period in which employees' salaries are reported. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investment Valuation: Investments are reported at fair value, which is the amount that the PSERS can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale. Short-term securities are reported at cost, which approximates fair value, unless they have a published market price or quotation from national security exchanges or securities pricing services, in which case they are reported at the published market price. Fixed income securities and common and preferred stocks are generally reported based on published

NOTE I - RETIREMENT AND OTHER POSTEMPLOYMENT BENEFITS (continued)

market prices and quotations from national security exchanges or securities pricing services. Securities that are not traded on a national security exchange are valued by the respective fund manager or other third parties based on similar sales. Real estate is primarily valued based on appraisals performed by independent appraisers or, for properties not appraised, at cost or the present value of projected future net income.

Alternative investments, which include private equity, private debt, venture capital and equity real estate, are primarily valued based on amounts established by valuation committees; such amounts include cash flow activity through fiscal year-end. Futures contracts, foreign exchange contracts, and options are marked-to-market daily; changes in market value are recognized as part of net appreciation/depreciation in the fair value of investments. Initial margin requirements for such financial instruments are provided by investment securities pledged as collateral or by cash.

Collective trust fund investments (CTF) consist primarily of domestic and international institutional funds. The funds do not pay interest or dividends to shareholders and reinvest all income earned on securities held by the fund. The fair value of CTF is based on the reported share value of the respective fund. CTF are managed by state chartered banks for which various state banking departments have regulatory oversight and investment advisors for which the Securities and Exchange Commission has regulatory oversight.

Other Postemployment Benefits

The Commonwealth funds certain health care benefits for retired primary government and certain component unit employees (that meet specified length-of-service and age requirements) and their eligible dependents. These benefits are provided as a result of negotiated union contracts and through administrative policy. The Commonwealth recognizes the cost of providing these benefits as paid, which totaled $580 million for the fiscal year ended June 30, 2007. Approximately 101,000 individuals were covered by these benefits during the fiscal year.

The Commonwealth provides several other postemployment benefits, including disability life insurance and certain benefits to beneficiaries of state police officers killed in the line of duty. The amount expended for these benefits was not material during the fiscal year ended June 30, 2007.

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE

Primary Government

During the fiscal year ended June 30, 2007, the Commonwealth did not issue any tax or bond anticipation notes or any other short-term debt and no short-term debt was repaid. At June 30, 2007 and 2006, no short-term debt was outstanding except for the current portion of a governmental activities statutory liability for an other financing obligation to the Underground Storage Tank Indemnification Fund, an Agency Fund, at June 30, 2007 amounting to $6 million, and at June 30, 2006 amounting to $6.5 million; the noncurrent portion of this statutory liability, also reported as an other financing obligation, amounted to $70.5 million at June 30, 2007 and amounted to $76 million at June 30, 2006.

Discretely Presented Component Units

The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, has reported $9,089,176 of demand revenue bonds outstanding and $2,695,748 of notes payable and other obligations, consisting of student loan financing of $960,919, student loan floating rate notes of $1,547,106, capital financing of $74,467, term financings of $69,930 and lines of credit of $44,000, net of unamortized discount of $674 at June 30, 2007 as follows (amounts in thousands):

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007
Student loan demand revenue bonds due 2017-2047, at weighted average interest rates of 4.91 and 4.86 percent at June 30, 2007 and 2006, respectively……	$ 7,774,900	$ 1,325,000	$ -	$ 9,099,900
Less: deferred amount on current refundings of student loan demand revenue bonds…….	11,524	-	800	10,724
Total demand revenue bonds payable……	$ 7,763,376	$ 1,325,000	$ 800	$ 9,089,176
Notes payable:				
Student loan financings, due on demand at weighted-average interest rates of 5.67 percent at June 30, 2007……	$ 857,919	$ 313,000	$ 210,000	$ 960,919
Student loan floating rate notes, due 2017-2043 at weighted average interest rates of 5.45 and 5.19 percent at June 30, 2007 and 2006, respectively……..…	379,341	1,250,000	82,235	1,547,106
Total notes payable…….....	$ 1,237,260	$ 1,563,000	$ 292,235	$ 2,508,025
Capital and other financing obligations:				
Capital financings, due 2008-2017, at weighted average interest rates of 5.98 and 6.13 percent at June 30, 2007 and 2006, respectively……..……	$ 67,765	$ 9,004	$ 2,302	$ 74,467
Term financings, due 2008-2031, at weighted average interest rates of 5.09 and 5.10 percent at June 30, 2007 and 2006, respectively……...	71,999	-	2,069	69,930
Lines of credit, due 2012, at weighted average interest rate of 6.32 percent at June 30, 2007……	49,900	119,000	124,900	44,000
Subtotal……	189,664	128,004	129,271	188,397
Less: unamortized discount……	747	-	73	674
Total capital and other financing obligations…...	$ 188,917	$ 128,004	$ 129,198	$ 187,723

NOTE J - NOTES AND DEMAND REVENUE BONDS PAYABLE (continued)

The note and bond indentures, among other things, require the PHEAA to comply with various covenants including minimum parity levels as defined, student loan and investment yields, and program expenses. The demand bonds payable are subject to purchase, at par plus accrued interest, by the PHEAA on demand of the bondholders upon seven days prior irrevocable written notice. Under the irrevocable letters of credit, the trustee is entitled to draw an amount sufficient to pay the purchase price of the bonds delivered to it. The letters of credit are valid from 2007 through 2015. The PHEAA is required to pay annual commitment fees ranging from 10 to 30 basis points on the stated amount of the letter of credit coverage. At June 30, 2007 total letter of credit coverage was $1.8 billion.

All student loan demand revenue bonds payable and financing notes payable are collateralized by student loans and investments. At June 30, 2007, $11.6 billion of debt was collateralized by $11.6 billion of student loan principal and related interest receivable and $329.3 million of investments and related interest receivable. Capital financings are collateralized with capital assets. Amounts due under other lines of credit are generally unsecured. At June 30, 2007 the PHEAA had $399.1 million of available credit under student loan financing arrangements, $2.7 million available credit under capital financings, and $106.0 million available under other lines of credit.

Debt service requirements subsequent to June 30, 2007, based upon stated maturities of bonds payable, notes payable and other financing obligations are as follows (amounts in thousands):

	Student Loan Bonds and Notes		Other Financing Obligations	
Year of Maturity	Principal	Interest	Principal	Interest
2008	$ 960,919	$ 549,457	$ 4,849	$ 10,669
2009	-	531,247	4,997	10,407
2010	-	531,247	4,954	10,141
2011	-	531,247	64,691	7,854
2012	-	531,247	47,225	4,988
2013-17	398,313	2,644,285	12,156	14,165
2018-22	891,208	2,452,628	13,970	10,865
2023-27	674,500	2,307,573	17,820	6,831
2028-32	425,000	2,167,348	17,735	1,822
2033-37	1,219,485	2,079,252	-	-
2038-42	1,306,000	1,700,841	-	-
2043-47	5,732,500	933,446	-	-
Total	$ 11,607,925	$16,959,818	$ 188,397	$ 77,742
Reported as:				
Demand revenue bonds payable	$ 9,089,176		-	
Add: Deferred amount on current refundings...	10,724		-	
Total principal owed on demand revenue bonds payable	9,099,900		-	
Notes payable - current	960,919		-	
Notes payable - noncurrent	1,547,106		-	
Other financing obligations, current	-		4,849	
Other financing obligations, noncurrent..	-		182,874	
Add: Unamortized discount	-		674	
Total principal.	$ 11,607,925		$ 188,397	

The PHEAA has $11.6 billion of student loan bonds and notes that are variable-rate debt, of which $1.7 billion resets based upon auctions every seven days, $6.7 billion resets based upon auctions every 28 days, $791.0 million resets based upon auctions every 35 days, $698.9 million is indexed to 91-day U.S. Treasury bills, $1.6 billion is indexed to the 3-month LIBOR and the remaining $112.0 million is indexed to the 1-month LIBOR. PHEAA notes and bonds payable, as well as all other debt, are limited obligations of the PHEAA. The PHEAA has no taxing power, and the Commonwealth is not obligated to pay the principal, redemption price, if any, or interest on any of the PHEAA's debt.

Additionally, at June 30, 2007, the Philadelphia Regional Port Authority reported current and non-current notes payable, respectively, of $382 and $2,408; component unit organizations of the State System of Higher Education reported non-current notes payable of $69,518; and the Philadelphia Shipyard Development Corporation (PSDC) reported non-current notes payable of $24,432 at its December 31, 2006 year end. Therefore, total reported notes payable – current and non-current for all discretely presented component units totaled $961,301 and $1,643,464 (amounts in thousands) at June 30, 2007 (December 31, 2006 for the PSDC).

NOTE K – GENERAL LONG-TERM OBLIGATIONS- GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS

Long-term obligations of the Commonwealth's governmental activities at June 30, 2007 and changes for the fiscal year ended June 30, 2007 are as follows (amounts in thousands):

GENERAL LONG-TERM OBLIGATIONS	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
General Obligation Bonds Payable From Tax Revenues:								
Capital Facilities	1992-07	3.50-6.25%	2027	$ 56,292,355	$ 3,861,505	$ 898,000	$ 501,410	$ 4,258,095
Disaster Relief	2000-01	5.00-6.00%	2014	105,908	8,070	-	1,565	6,505
Land and Water Development	1992	6.00-6.25%	2012	300	1,440	-	170	1,270
Nursing Home Loan Development	-	-	-	31,000	-	-	-	-
Volunteer Companies Loan	1992-98	5.00-6.25%	2012	50,000	1,415	-	545	870
Vietnam Conflict Veterans Compensation	-	-	-	3,000	-	-	-	-
Water Facilities Loan	1992	6.00-6.25%	2012	11,500	10,735	-	1,440	9,295
Pennsylvania Economic Revitalization	1992	6.00-6.25%	2012	14,000	2,880	-	340	2,540
Pennsylvania Infrastructure Investment Authority	1992-07	3.50-6.25%	2027	152,000	67,325	65,000	4,475	127,850
Agricultural Conservation Easement Purchase	1992-98	4.50-6.25%	2013	-	10,135	-	1,905	8,230
Local Criminal Justice	1997-06	4.00-5.25%	2026	4,500	6,470	-	985	5,485
Keystone Recreation, Park and Conservation	1997-98	5.00%	2008	-	1,650	-	700	950
Water Supply and Wastewater Treatment	2005-07	3.50-5.50%	2027	117,000	50,000	83,000	560	132,440
Growing Greener	2005-06	4.10-5.50%	2027	415,000	183,000	27,000	1,410	208,590
Persian Gulf Conflict Veterans Compensation	-	-	-	20,000	-	-	-	-
Refunding Bonds	1992-06	3.00-6.40%	2021	-	3,090,344	247,319	245,503	3,092,160
Total principal				57,216,563	7,294,969	1,320,319	761,008	7,854,280
Unamortized premium on bonds issued				-	530,984	60,642	31,447	560,179
Unamortized deferred net refunded loss				-	(168,279)	(14,771)	(14,264)	(168,786)
Total general obligation bonds payable				57,216,563	7,657,674	1,366,190	778,191	8,245,673
Other General Long-Term Obligations Payable From Tax and Other Revenues:								
Installment Purchase Obligations	-	-	-	-	2,571	1,439	-	4,010
Capital Lease Obligations	-	-	-	-	39,487	297	3,145	36,639
Self-Insurance—Note M *	-	-	-	-	736,372	557,836	533,981	760,227
Compensated Absences *	-	-	-	-	730,772	441,257	479,204	692,825
Other	-	-	-	-	960,265	77,870	324,248	713,887
Subtotal				-	2,469,467	1,078,699	1,340,578	2,207,588
TOTAL GENERAL LONG-TERM OBLIGATIONS				$ 57,216,563	$10,127,141	$ 2,444,889	$ 2,118,769	$10,453,261

* The estimated current portion of self-insurance and compensated absence liabilities, respectively, is $154,816 and $117,313.

Revenue bond obligations of discretely presented component units at June 30, 2007 (May 31, 2007 for the Pennsylvania Turnpike Commission (PTC)) and changes for the fiscal year then ended are as follows (amounts in thousands):

REVENUE BONDS PAYABLE	Issue Dates	Interest Rates	Maturity Dates Through	Bonds Authorized But Unissued	Balance July 1, 2006	PTC Reporting Change	Additions	Reductions	Balance June 30, 2007
Philadelphia Regional Port Authority	2003	5.19%	2020		$ 45,900	$ -	$ -	$ 2,000	$ 43,900
Pennsylvania Housing Finance Agency	Various	Various	2038		3,446,835	-	929,534	365,694	4,010,675
Pennsylvania Industrial Development Authority	1994-04	4.00-6.00%	2021		453,805	-	-	28,040	425,765
Pennsylvania Turnpike Commission	1998-06	Various	2041		2,410,610	-	594,540	296,400	2,708,750
Commonwealth Financing Authority	2005-06	4.50-5.60%	2026		375,000	-	187,500	10,280	552,220
Pennsylvania Infrastructure Investment Authority	1998-05	2.00-5.00%	2014		$ 75,815	-	-	14,775	61,040
					6,807,965	-	1,711,574	717,189	7,802,350
Less: Bond discounts	-	-	-		(8,913)	-	(2,376)	(1,659)	(9,630)
Add: Bond premiums	-	-	-		56,163	-	17,667	5,526	68,304
Less: Deferred net refunded loss	-	-	-		(30,221)	(66,204)	(13,278)	(9,096)	(100,607)
TOTAL REVENUE BONDS PAYABLE					$ 6,824,994	($66,204)	$1,713,587	$ 711,960	$ 7,760,417

NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

Additionally, the Port of Pittsburgh Commission and component unit organizations of the State System of Higher Education reported $2,000 and $517,740, respectively, of revenue bonds payable at June 30, 2007. Total reported current and noncurrent component unit revenue bonds were $282,788 and $7,997,369, respectively, at June 30, 2007 (May 31, 2007 for the PTC) (amounts in thousands).

Primary Government

The Commonwealth has pledged its full faith and credit for the payment of principal and interest on its general obligation bonds. Typically only the **General Fund** and the **Motor License Fund** transfer amounts to Debt Service funds for general obligation bond principal and interest payments. During the fiscal year ended June 30, 2007, respectively, these two Funds transferred $820,585 and $41,862 to the Capital Debt Fund, which reported $850,648 (nearly 97 percent) of total Debt Service funds principal and interest expenditures of $879,631 (amounts in thousands). Typically, except for Catastrophic Loss Benefits Claims, which are funded by motorist violation fines, general long-term obligations other than general obligation bonds are funded by the **General Fund** and/or the **Motor License Fund**. In specific, limited instances, a variety of individual Funds will fund some obligations; such instances include capital assets being procured using long-term vendor or other financing; where employees earn compensated absences; or where self-insurance claims originate.

The total "Additions" of $1,366,190 for General Obligations Bonds Payable at June 30, 2007 consists of total bond and refunding bond proceeds of $1,130,420 and $253,892, respectively, for Governmental Funds (including premium of $60,642), less net principal accretion on maturing debt for capital appreciation bonds of $3,351 less deferred net refunded loss of $14,771 during the fiscal year ended June 30, 2007. As part of the total "Additions" the total principal of $1,320,319 for General Obligations Bonds Payable consists of bonds issued of $1,073,000 and refunding bonds issued of $250,670, less net principal accretion on capital appreciation bonds of $3,351. In December 2006 and May 2007, $50,000 and $15,000, respectively, of bonds issued were distributed to the PA Infrastructure Investment Authority, a discretely presented component unit.

The total "Reductions" of $778,191 for General Obligations Bonds Payable from Tax Revenues at June 30, 2007 consists of total principal of $761,008, plus $31,447 of bond premium that was amortized and credited to bond interest expense in the Statement of Activities (unamortized premium in the Statement of Net Assets at June 30, 2007 is $560,179), less $14,264 of deferred net refunded loss that was amortized and charged to bond interest expense in the Statement of Activities (unamortized deferred net refunded loss in the Statement of Net Assets at June 30, 2007 is $168,786) (amounts in thousands):

	Additions	Reductions
Bonds/refunding bonds issued	$1,323,670	$ 761,008
Net principal accretion	(3,351)	-
Total principal	1,320,319	761,008
Unamortized premium on bonds/refunding bonds issued	60,642	31,447
Unamortized deferred net refunded loss	(14,771)	(14,264)
Changes in general obligation bonds payable	**$1,366,190**	**$ 778,191**

The Commonwealth uses fiscal agents to process payments for the servicing of certain bond issues. Additional cash with fiscal agents is held by the Federal government for unemployment compensation claims.

The balance outstanding at June 30, 2007 for general obligation refunding bonds includes $8 million of accreted value for capital appreciation bonds. No principal or interest is payable on the capital appreciation bonds until maturity.

Included in "Other" for Other General Long-Term Obligations payable from workers' compensation assessments, investment income and/or **General Fund** tax revenues are the following at June 30, 2007 (amounts in thousands):

Workers' Compensation Security Trust Claims	$ 563,855
Catastrophic Loss Benefits Claims	100,482
Public Utility Realty Tax Act (PURTA)	30,000
Litigation—Note N	17,397
Restricted Receipts	2,153
Total	$ 713,887

NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

The Workers' Compensation Security Trust Fund provides for payment of valid claims under the Workers' Compensation Law to individuals whose employers are insured by insolvent insurance carriers. The Catastrophic Loss Benefits Trust Fund provides specific benefits to qualifying claimants who sustained severe injuries in motor vehicle accidents. The PURTA provides for a tax on utility realty property whereby amounts received during the fiscal year are used as a General Fund revenue source. The Act also provides for payment of a majority of the PURTA revenues as a distribution to local taxing authorities during the following fiscal year (normally in October). Such payments are appropriated for expenditure in the following fiscal year and are, therefore, not expendable during the fiscal year the related revenue is received. The other amounts included in General Long-Term Obligations at June 30, 2007 relating to Workers' Compensation Claims, Catastrophic Loss Benefits Claims, and Litigation are not payable with currently expendable available financial resources.

The Commonwealth's constitutional debt limit, which allows for the incurrence of debt to be used for capital projects without electorate approval as specifically itemized in a capital budget, was $51.3 billion as of August 31, 2007, with net debt outstanding of $6.8 billion.

Discretely Presented Component Units

The Pennsylvania Housing Finance Agency (PHFA), the Pennsylvania Higher Education Assistance Agency (PHEAA), the Pennsylvania Industrial Development Authority, the Pennsylvania Turnpike Commission (PTC) and the Pennsylvania Infrastructure Investment Authority, discretely presented component units, have pledged substantially all of their revenues for the redemption of revenue bonds outstanding. Revenue bonds outstanding as reported in this note disclosure for the fiscal year ended June 30, 2007 (May 31, 2007 for the PTC) include unamortized bond discount, unamortized bond premium, and deferred net refunded losses of $9.6 million, $68.3 million, and $100.6 million, respectively.

The following table presents annual principal and interest payments for long-term debt outstanding for the primary government and discretely presented component units at June 30, 2007 (May 31, 2007 for the Pennsylvania Turnpike Commission) (amounts in thousands):

PRIMARY GOVERNMENT

	2008	2009	2010	2011	2012	2013-17	2018-22
GENERAL OBLIGATION BONDS:							
Capital Facilities	$ 526,183	$ 517,470	$ 500,456	$ 480,367	$ 425,885	$ 1,519,871	$ 1,183,611
Disaster Relief	1,876	1,794	1,708	1,622	178	334	-
Land and Water Development	253	251	255	257	253	253	-
Nursing Home Loan Development	-	-	-	-	-	-	-
Volunteer Companies Loan	403	239	86	82	82	83	-
Vietnam Conflict Veterans Compensation	-	-	-	-	-	-	-
Water Facilities Loan	1,860	1,858	1,856	1,852	1,850	1,846	-
Pennsylvania Economic Revitalization	510	507	509	503	505	505	-
Pennsylvania Infrastructure Investment Authority	12,128	12,172	11,780	11,404	11,285	47,531	45,254
Agricultural Conservation Easement Purchase	1,830	1,785	1,739	1,250	1,226	1,715	-
Local Criminal Justice	920	892	619	505	503	1,759	1,389
Keystone Recreation, Park and Conservation	741	256	-	-	-	-	-
Water Supply and Wastewater Treatment	8,046	10,346	10,345	10,363	10,355	51,807	51,989
Growing Greener	16,585	16,601	16,586	16,584	16,583	82,834	82,880
Refunding Bonds	375,014	367,940	350,206	349,786	377,682	1,535,769	775,920
Total Principal and Interest	946,349	932,111	896,145	874,575	846,387	3,244,307	2,141,043
Less: Interest Payments	386,948	354,213	324,615	294,626	264,756	921,597	432,083
Total general obligation bonds	559,401	577,898	571,530	579,949	581,631	2,322,710	1,708,960
Other General Long-Term Obligations	363,062	94,071	95,546	91,673	78,392	522,923	537,126
TOTAL GENERAL LONG-TERM OBLIGATIONS	$ 922,463	$ 671,969	$ 667,076	$ 671,622	$ 660,023	$ 2,845,633	$ 2,246,086

The portion of Total General Long-Term Obligations principal due by June 30, 2008 amounts to $922,463 (in thousands).

NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

PRIMARY GOVERNMENT (continued)

	2023-27	2028-32	2033-37	2038-42	2043-47	Total
GENERAL OBLIGATION BONDS:						
Capital Facilities	$ 862,760	$ 22,507	$ -	$ -	$ -	$ 6,039,110
Disaster Relief	-	-	-	-	-	7,512
Land and Water Development	-	-	-	-	-	1,522
Nursing Home Loan Development	-	-	-	-	-	-
Volunteer Companies Loan	-	-	-	-	-	975
Vietnam Conflict Veterans Compensation	-	-	-	-	-	-
Water Facilities Loan	-	-	-	-	-	11,122
Pennsylvania Economic Revitalization	-	-	-	-	-	3,039
Pennsylvania Infrastructure Investment Authority	41,796	1,185	-	-	-	194,535
Agricultural Conservation Easement Purchase	-	-	-	-	-	9,545
Local Criminal Justice	812	-	-	-	-	7,399
Keystone Recreation, Park and Conservation	-	-	-	-	-	997
Water Supply and Wastewater Treatment	50,937	5,373	-	-	-	209,561
Growing Greener	79,478	-	-	-	-	328,131
Refunding Bonds	-	-	-	-	-	4,132,317
Total Principal and Interest	1,035,783	29,065	-	-	-	10,945,765
Less: Interest Payments	111,979	670	-	-	-	3,091,487
Total general obligation bonds	923,804	28,395	-	-	-	7,854,278
Other General Long-Term Obligations	424,796	-	-	-	-	2,207,589
TOTAL GENERAL LONG-TERM OBLIGATIONS	$ 1,348,600	$ 28,395	$ -	$ -	$ -	$10,061,867

DISCRETELY PRESENTED COMPONENT UNITS

	2008	2009	2010	2011	2012	2013-17	2018-22
Philadelphia Regional Port Authority	$ 4,428	$ 4,406	$ 4,391	$ 4,456	$ 4,427	$ 22,100	$ 17,631
Pennsylvania Housing Finance Agency	342,893	281,881	294,049	279,201	273,225	1,286,953	1,226,877
Pennsylvania Industrial Development Authority	54,262	56,635	64,843	50,331	45,174	187,660	110,158
Pennsylvania Turnpike Commission	173,098	185,444	185,746	186,034	186,087	933,496	820,820
Commonwealth Financing Authority	47,038	47,042	47,043	47,048	47,045	235,262	235,313
Pennsylvania Infrastructure Investment Authority	15,672	14,687	13,607	9,991	7,054	7,940	-
Total Principal and Interest	637,391	590,095	609,679	577,061	563,012	2,673,411	2,410,799
Less: Interest Payments	354,603	342,475	330,767	318,660	306,880	1,345,681	1,026,012
TOTAL REVENUE BONDS	$ 282,788	$ 247,620	$ 278,912	$ 258,401	$ 256,132	$ 1,327,730	$ 1,384,787

	2023-27	2028-32	2033-37	2038-42	Total
Philadelphia Regional Port Authority	$ -	$ -	$ -	$ -	$ 61,839
Pennsylvania Housing Finance Agency	1,142,944	1,002,011	679,724	23,944	6,833,702
Pennsylvania Industrial Development Authority	-	-	-	-	569,063
Pennsylvania Turnpike Commission	799,797	667,881	377,661	130,488	4,646,552
Commonwealth Financing Authority	172,582	-	-	-	878,373
Pennsylvania Infrastructure Investment Authority	-	-	-	-	68,951
Total Principal and Interest	2,115,323	1,669,892	1,057,385	154,432	13,058,480
Less: Interest Payments	703,864	392,611	122,505	12,072	5,256,130
TOTAL REVENUE BONDS	$ 1,411,459	$ 1,277,281	$ 934,880	$ 142,360	$ 7,802,350

Additionally, the Port of Pittsburgh Commission and component unit organizations of the State System of Higher Education reported $2,000 and $517,740, respectively, of revenue bonds payable at June 30, 2007.

NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

The Commonwealth has entered into certain agreements to lease various facilities and equipment. Such agreements are in-substance purchases (capital leases) and are reported as Capital Lease Obligations. In addition, the Commonwealth also makes purchases using installment purchase arrangements. The following is a schedule by fiscal year of future minimum payments under capital leases and installment purchase obligations, together with the present value of the net minimum lease payments as of June 30, 2007 (amounts in thousands):

	Primary Government		Discretely Presented Component Unit
	Capital Lease Obligations	Installment Purchase Obligations	State System of Higher Education
Fiscal year ending June 30			
2008	$ 6,675	$ 1,008	$ 57,633
2009	6,585	927	56,551
2010	6,348	833	55,547
2011	6,224	698	52,802
2012	6,195	507	47,121
2013-17	24,781	1,258	256,768
2018-22	-	-	217,198
2023-26	-	-	122,125
Total minimum lease payments	56,808	5,231	865,745
Less: amount representing estimated executory cost included in minimum lease payments	7,291	-	-
Net minimum lease payments and Installment purchases	49,517	5,231	865,745
Less: amount representing interest	12,879	1,221	263,445
Total Capital Lease and Installment Purchase Obligations	$ 36,638	$ 4,010	$ 602,300

At June 30, 2007 general capital assets included $89.7 million of buildings and $8.9 million of equipment being procured by capital leases. A total of $16.6 million in general capital assets is being procured by vendor-financed installment purchase arrangements.

Capital lease obligations outstanding as of June 30, 2007 reported by the State System of Higher Education (SSHE), a discretely presented component unit, relate to various capital projects currently under construction for which a related public financing authority is the lessor. Revenue bonds were issued by the public financing authority to provide funding for these capital projects. SSHE capital assets include $159.0 million of construction in progress related to capital leases at June 30, 2007.

Conduit Debt

The State Public School Building Authority (SPSBA), a discretely presented component unit, finances construction and improvement projects for public schools through the issuance of tax-exempt instruments (bonds, notes or other obligations) for the purpose of making lower cost tax-exempt financing available to school districts and community colleges. The debt instruments issued by the SPSBA represent limited obligations payable solely from lease/loan payments made by the borrowing institutions and related assets held by trustees. At June 30, 2007 the SPSBA has $1.77 billion of debt outstanding. Neither the SPSBA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Higher Educational Facilities Authority (PHEFA), a discretely presented component unit, finances projects through the issuance of tax-exempt instruments (bonds, notes or other obligations) to provide a source of tax-exempt financing for colleges and universities. The debt instruments issued by the PHEFA represent limited obligations payable solely from payments made by the related borrowing institutions and related assets held by the trustees. At June 30, 2007 the PHEFA has $5.36 billion of debt outstanding. Neither the PHEFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Economic Development Financing Authority (PEDFA) finances projects on behalf of local industrial and commercial development authorities to promote economic growth within the Commonwealth. Revenue bonds issued by the

NOTE K – GENERAL LONG-TERM OBLIGATIONS – GOVERNMENTAL ACTIVITIES AND COMPONENT UNITS (continued)

PEDFA represent limited obligations payable solely from Authority financed project revenues. At June 30, 2007 the PEDFA had $1.62 billion of debt outstanding. Neither PEDFA nor the Commonwealth has any obligation for this debt. Therefore, neither the financed assets nor the bonds are included in the accompanying financial statements.

The Pennsylvania Energy Development Authority (PEDA) finances projects related to energy conservation and research. Fees are assessed to recover related processing and application costs incurred. The bonds issued by the Authority represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers from the trustees to the entity served by the bond issuance. The PEDA had $51.6 million in revenue bonds outstanding at June 30, 2007. The Commonwealth has no obligation for this debt. Accordingly, neither the financed assets nor the bonds are included in the accompanying financial statements.

NOTE L - REFUNDED DEBT

Primary Government

During the fiscal year ended June 30, 2007 the Commonwealth issued $250.7 million in general obligation bonds, First Refunding Series of 2006, with average interest rate of 4.06 percent to advance refund $239.2 million of previously issued general obligation bonds with average interest rate of 5.01 percent. The refunding bond proceeds of $253.9 million (including bond premium of $3.3 million) after payment of underwriting fees, insurance and other issuance costs, were deposited in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the bonds refunded are considered to be defeased and have been removed from the Commonwealth's financial statements. The Commonwealth refunded its previously issued bonds to reduce debt service payable on its general obligation bonds by $14 million and to obtain an economic gain of $11.7 million.

In prior years, the Commonwealth defeased certain general obligation bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. At June 30, 2007, $1,631.53 million of general obligation bonds outstanding that were previously accounted for in the Commonwealth's financial statements were defeased through advance refundings.

Discretely Presented Component Units

During the fiscal year ended June 30, 2007, in current refundings, the Pennsylvania Housing Finance Agency (PHFA) redeemed prior to maturity $231.1 million of certain Single Family Mortgage Revenue Bonds. A deferred loss of $1.2 million and an economic gain of $6.2 million resulted from the refundings. The PHFA reduced its aggregate debt service payment as a result of these transactions by a total of $12.5 million over the next 30 years.

Also, in early extinguishments, the PHFA redeemed prior to maturity $35.2 million of certain Revenue Bonds resulting in current year expense of $280 thousand.

In prior years, the PHFA defeased Multifamily Residential Development Bonds, Issues H and M. At June 30, 2007, $3.7 million of bonds outstanding that were previously accounted for in the financial statements of the PHFA have been defeased through advance refundings.

In November 2006, the Pennsylvania Turnpike Commission issued Series A and B Oil Company Franchise Tax Revenue Refunding Bonds in the total amount of $240.7 million to partially defease Series A and B of the 1998 and Series A and B of the 2003 Oil Company Franchise Revenue Bonds. A deferred loss of $12.1 million resulted from this advance refunding and resulted in an economic gain of $7.3 million. Total debt service payments will be reduced by $22.7 million over the next 26 years.

At May 31, 2007, $1,085.5 million of bonds outstanding that were previously accounted for in the financial statements of the Pennsylvania Turnpike Commission have been defeased through refundings.

At June 30, 2007, $38.6 million of bonds that were previously accounted for in the financial statements of the Pennsylvania Infrastructure Investment Authority have been defeased through refundings.

NOTE M – SELF-INSURANCE

The Commonwealth is self-insured for statutory workers' compensation, which includes indemnity and medical benefits (employee disability), for its employees injured on the job. The Commonwealth is also self-insured for annuitant medical/hospital claims and for tort liability claims. Major tort risks include automobile, employee and general torts. For property losses, the Commonwealth has $1 million retention with excess commercial insurance coverage up to $250 million per occurrence ($350 million, as of September 19, 2007.) The Commonwealth is also self-insured for claims against the Department of Transportation (transportation claims). The Commonwealth has established various administrative policies that are intended to avoid or limit the aforementioned risks. Accrued liabilities for statutory workers' compensation and annuitant medical/hospital claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses.

There were no reductions in commercial insurance coverage during the fiscal year ended June 30, 2007. No settlements exceeded commercial insurance coverage during any of the past three fiscal years.

Accrued liabilities for tort and transportation claims are established based on reserves computed from the Commonwealth's claim experience; such claims are not discounted and do not include non-incremental claims adjustment expenses. These liabilities include liabilities for allocated claim adjustment expenditures/expenses and include salvage and subrogation. Salvage and subrogation were not material for the fiscal year ended June 30, 2007. No accrued liability has been reported for property losses.

At June 30, 2007, none of the accrued liabilities for governmental activities were payable from current expendable available financial resources. It is anticipated that the **General Fund** and the **Motor License Fund**, respectively, will fund governmental activities liabilities of $505,646 and $236,425. Business-type activities liabilities are primarily owed by the **State Lottery Fund** ($1,278), the **State Workers' Insurance Fund** ($1,661) and the State Stores Fund ($18,698), all Enterprise Funds. All accrued self-insurance liabilities at June 30, 2007 are summarized as follows (amounts in thousands):

	Governmental Activities		Business Type Activities		Fiduciary Fund Types	
	Current	Non-current	Current	Non-current	Current	Non-current
Employee disability	$ 82,691	$ 327,026	$ 4,610	$ 18,233	$ 70	$ 275
Annuitant medical/hospital	48,025	-	-	-	-	-
Automobile tort	3,650	20,928	-	-	-	-
Employee tort	4,200	51,674	-	-	-	-
General tort	1,250	42,110	-	-	-	-
Transportation	15,000	163,673	-	-	-	-
Totals	$154,816	$ 605,411	$ 4,610	$ 18,233	$ 70	$ 275

The following summary provides aggregated information on June 30, 2006 reported self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2007 and reported self-insurance liabilities at June 30, 2007 (amounts in thousands):

	June 30, 2006	Incurred Claims		Payments		June 30, 2007
	Liability	Current	Prior	Current	Prior	Liability
Employee disability	$ 417,721	$ 62,735	$ 23,947	$ 9,848	$ 61,650	$ 432,905
Annuitant medical/hospital	43,574	445,830	-	397,805	43,574	48,025
Automobile tort	18,035	5,796	3,317	1,043	1,527	24,578
Employee tort	34,440	9,818	17,082	20	5,446	55,874
General tort	41,360	6,356	(3,380)	29	947	43,360
Transportation	202,892	31,604	(45,268)	407	10,148	178,673
Totals	$ 758,022	$ 562,139	$ (4,302)	$ 409,152	$123,292	$ 783,415

NOTE M – SELF-INSURANCE (continued)

The following summary provides aggregated information on June 30, 2005 self-insurance liabilities; incurred claims and payments during the fiscal year ended June 30, 2006 and reported self-insurance liabilities at June 30, 2006 (amounts in thousands):

	June 30, 2005	Incurred Claims		Payments		June 30, 2006
	Liability	Current	Prior	Current	Prior	Liability
Employee disability	$ 399,689	$ 67,425	$ 36,895	$ 10,629	$ 75,659	$ 417,721
Annuitant medical/hospital	34,497	410,558	-	366,984	34,497	43,574
Automobile tort	20,581	3,919	(4,091)	1,001	1,373	18,035
Employee tort	31,038	1,835	5,687	-	4,120	34,440
General tort	42,464	8,310	(8,707)	66	641	41,360
Transportation	310,398	52,361	(147,823)	416	11,628	202,892
Totals	$ 838,667	$ 544,408	$ (118,039)	$ 379,096	$127,918	$ 758,022

NOTE N – COMMITMENTS AND CONTINGENCIES

Construction and Other Commitments: At June 30, 2007, the Department of Transportation and at May 31, 2007, the Pennsylvania Turnpike Commission, a discretely presented component unit, had contractual commitments of approximately $2,174 million and $1,066 million, respectively, for various highway construction and mass transit projects. Financing for these future expenditures will be primarily from approved federal grants and general obligation bond proceeds. In addition, the Commonwealth has a variety of contractual and other commitments for future subsidies and purchases of goods and services for approximately $6.3 billion at June 30, 2007. Actual expenditures are contingent upon approved spending authority and/or availability of financial resources.

Investment Commitments: At December 31, 2006, the SERS had contractual commitments totaling approximately $3.7 billion to fund future alternative investments and $548 million to fund future real estate investments.

Loan Commitments: At June 30, 2007, primary government funds had approved over $120 million in loans that had not been disbursed. Also at June 30, 2007, the following discretely presented component units had approved loans that had not been disbursed (amounts in millions):

Pennsylvania Housing Finance Agency	$	131
Pennsylvania Industrial Development Authority	$	69
Pennsylvania Infrastructure Investment Authority	$	366
Commonwealth Financing Authority	$	300

Commitment to Purchase Student Loans: At June 30, 2007 the Pennsylvania Higher Education Assistance Agency, a discretely presented component unit, had commitments to purchase approximately $1.2 billion of student loans.

Operating Lease Commitments: As of June 30, 2007 the Commonwealth has commitments to lease certain buildings and equipment. Future minimum rental commitments for non-cancelable operating leases as of June 30, 2007 were as follows (amounts in thousands):

Fiscal year ending June 30:	**Amount**
2008	$ 282,736
2009	179,662
2010	139,513
2011	107,718
2012	76,115
2013-2017	149,277
2018-2022	32,179
2024-2026	10,956
Total Minimum Lease Payments	$ 978,156

Rental expenditures/expenses for all operating leases for the fiscal year ended June 30, 2007 amounted to $283.8 million.

Child Support Payments: At June 30, 2007, the Commonwealth was contingently liable for approximately $21.1 million in payments received by a contractor to be used for child support payments.

Litigation: The Commonwealth is a defendant in numerous legal proceedings pertaining to matters normally incidental to routine operations. Such litigation includes, but is not limited to, claims asserted against the Commonwealth arising from alleged torts, alleged breaches of contracts, condemnation proceedings and other alleged violations of Commonwealth and Federal laws. The Commonwealth has reported accrued liabilities at June 30, 2007 with respect to torts as described in Note M for probable losses, and, separately, other General Long-Term Obligations with respect to litigation cases in the amount of $17.4 million for which the likelihood of an unfavorable outcome is probable.

Additionally, the Commonwealth is currently involved in certain legal proceedings for which the likelihood of an unfavorable outcome is reasonably possible, for which liabilities have not been reported as of June 30, 2007. Unfavorable outcomes for such cases, which the Commonwealth is vigorously contesting, could range from approximately $130 million to $1,487 million for the **General Fund**; $1 million to $219 million for the **Motor License Fund**, a Special Revenue Fund; and $.1 million to $1.1 billion of possible additional liabilities for the State Employees' Retirement System, a fiduciary fund. The range of potential liability for governmental activities was from $130 million to $1.7 billion; there is no potential liability for business-type activities at June 30, 2007.

NOTE N – COMMITMENTS AND CONTINGENCIES (continued)

Federal Grants: The Commonwealth receives significant financial assistance from the Federal government in the form of grants and entitlements, including several non-cash programs (which are not included in the basic financial statements). Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies of the Federal government or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the Commonwealth. The Commonwealth is currently involved in administrative and legal proceedings, with certain Federal agencies, contesting various disallowances and sanctions related to Federal Assistance Programs ranging from $19 million to $1,205 million at June 30, 2007. The Commonwealth's management believes ultimate disallowances and sanctions, if any, will not have a material effect on the basic financial statements.

Loan Guarantees: The Pennsylvania Higher Education Assistance Agency (PHEAA), a discretely presented component unit, guarantees loans made by private lenders to certain resident students. Total original principal of outstanding guarantees issued by PHEAA approximated $47.5 billion at June 30, 2007. Under the Federal Family Education Loan Program, as amended, the PHEAA has entered into agreements with the U.S. Department of Education for reinsurance of death, disability, bankruptcy, default, school closure and borrower ineligibility claims paid to lenders. Pursuant to these agreements, PHEAA receives reimbursement of claims paid to lenders, provided that PHEAA is in compliance with numerous Federal requirements. Reinsurance rates vary from 75 percent to 100 percent depending upon default rates in the portfolio guaranteed by PHEAA and upon the time period when specific loans were guaranteed by PHEAA. During the fiscal year ended June 30, 2007, PHEAA's default rate was in a range that permitted the maximum reinsurance reimbursement from the U.S. Department of Education.

The Commonwealth Financing Agency (CFA), a discretely presented component unit, through various economic development programs, provided loan guarantees for the fiscal years ending June 30 as follows (amounts in thousands):

	2007	2008
First industries loan guarantees	$ 9,220	$ 1,375
Tax increment financing guarantees	15,000	5,000
Second stage loan guarantees	2,660	375
Venture capital guarantees	172,500	-
Total loan guarantees	$ 199,380	$ 6,750

The CFA has not been called upon, with respect to any loan guarantees, to make principal or interest payments on behalf of the ultimate borrowers.

Lottery Prizes: The **State Lottery Fund**, an Enterprise Fund, awards a variety of prizes, including immediate, lump-sum cash prizes and certain large prizes, which provide for periodic payments to winners for specific periods of time (in some cases throughout the winners' lifetimes, and to designated beneficiaries). At June 30, 2007, the amount of future payments owed to prizewinners was $817 million. To satisfy its financial obligation to these prizewinners, the Fund purchases annuity contracts from insurance companies whereby the insurance companies make periodic payments to prizewinners. Generally, in the event of insurance company default, the Fund is liable for the related annuity payments. However, certain prizewinners voluntarily assign their annuity rights to other parties and receive lump-sum payments in return. In the event of insurance company default where annuity rights have been voluntarily assigned by prizewinners, the Fund is not liable for the related annuity payments. At June 30, 2007, prizewinners had voluntarily assigned future payments of $474 million.

NOTE O - CERTAIN AGENCY FUND CLAIMS LIABILITIES

The Pennsylvania Medical Care Availability and Reduction of Error Fund, an Agency Fund, acts as a service agent to facilitate the payment of medical malpractice claims exceeding basic liability coverage carried by healthcare providers practicing in the Commonwealth. The Fund levies healthcare provider surcharges, as a percentage of insurance premiums for basic coverage, and receives certain motorist moving vehicle violation assessment surcharges to pay claims and administrative expenses paid on behalf of healthcare providers during the prior year. The actuarially computed liability for outstanding claims for injuries caused by alleged negligence by certain healthcare providers totaled $2.12 billion at June 30, 2007. The claims will be funded exclusively through surcharge assessment in future years as claims are settled and paid.

The Underground Storage Tank Indemnification Fund (the Fund), an Agency Fund, is used to collect fees from underground storage tank owners and operators sufficient to pay owners and operators for costs associated with corrective actions or for bodily injury or property damage caused by underground tank leaks and other releases. Owners and operators are assessed actuarially determined amounts to accumulate sufficient assets to pay claims. The estimated actuarial liability for existing and potential future claims totaled $4.3 billion at June 30, 2007. There are statutory limits on the extent of the Fund's liability to participating owners and operators; the Fund is not obligated beyond assets held at June 30, 2007. Owners and operators will be assessed for any claims exceeding Fund assets and no financial liability is reported for those claims.

NOTE P - DEFERRED COMPENSATION

The Commonwealth sponsors a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is administered by the State Employees' Retirement System, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

Of the $1,697 million in net assets reported in the Deferred Compensation Fund, a Pension Trust Fund, at December 31, 2006, $1,632 million relates to primary government employees and $58 million relates to employees of discretely presented component units. The remaining balance of $7 million relates to organizations not included in the Commonwealth's financial reporting entity.

NOTE Q - JOINT VENTURE

The Commonwealth and various labor unions representing Commonwealth employees participate in a joint venture, the Pennsylvania Employees Benefit Trust Fund (PEBTF). The PEBTF establishes and provides health and welfare benefits for active Commonwealth employees and is a third party administrator for Commonwealth annuitant medical/hospital benefits. The Commonwealth has, in its collective bargaining agreements with unions subject to the agreement, obligated itself to provide certain contributions on behalf of all bargaining unit employees. The Commonwealth also remits contractually established contributions on behalf of non-union employees and other employees covered by contracts between the Commonwealth and other unions. During the fiscal year ended June 30, 2007, total contributions amounted to approximately $1,305 million. Neither the Commonwealth nor the unions have an equity interest in the PEBTF.

At June 30, 2007, the PEBTF reported total assets of $246 million, total liabilities of $61 million, total benefit obligations of $84 million, and an excess of net assets over benefit obligations of $101 million. The financial status of the PEBTF is monitored on an ongoing basis; financial stress is evident as a result of increasing benefit and other expenses. During the fiscal year ended June 30, 2007 the PEBTF reported an increase in net assets over benefit obligations of $75 million for the Active Plan program.

On July 15, 2004, the PEBTF received $30 million from the Commonwealth of Pennsylvania as an interest-free advance payment of the Commonwealth's active employee contribution. The PEBTF repaid the Commonwealth during the fiscal year ended June 30, 2007.

Audited financial statements for the PEBTF are available, by request, from:

William K. Schantzenbach
Chief Financial Officer
Pennsylvania Employees Benefit Trust Fund
150 South 43rd Street
Harrisburg, Pennsylvania 17111-5700

NOTE R – SUBSEQUENT EVENTS

Subsequent to June 30, 2007 (May 31, 2007 for the Pennsylvania Turnpike Commission), the Commonwealth issued general obligation bonds and several component unit organizations issued other debt, as follows:

Primary Government

On December 20, 2007 the Commonwealth plans to issue $588 million of General Obligation Bonds, Second Series A and B of 2007, at interest rates ranging from 3.45 to 5.00 percent. The Commonwealth will issue the bonds to finance the following: capital facilities projects including construction and major rehabilitation of public buildings, redevelopment assistance projects, and transportation assistance projects; Pennworks Acts grants and loans for construction, expansion and improvement of water, wastewater and sewerage infrastructure; and environmental initiatives related to the Growing Greener program including open space and farmland preservation, watershed protection, abandoned mine reclamation, and acid mine drainage remediation among others.

Also, on December 20, 2007 the Commonwealth plans to issue $118.145 million of General Obligation Bonds, First Refunding Series of 2007, at an interest rate of 5.00 percent. The Commonwealth will issue the bonds to refund a portion of a previous refunding bond issue to reduce future debt service requirements.

Discretely Presented Component Units

On July 18, 2007 Governor Rendell signed into law House Bill 1590, titled Act 44 of 2007, which include amendments to existing Title 74, Chapter 13, of the Pennsylvania Tax Reform Code regarding the Pennsylvania Turnpike Commission (PTC). The provisions require the PTC to enter into a 50-year lease agreement by October 15, 2007 with the Department of Transportation (PennDOT) for the conversion of Interstate 80 to a toll facility and to provide annual payments to PennDOT to fund highway, bridge, and transit programs throughout the Commonwealth. For the fiscal years ending May 31, 2008, 2009 and 2010, the PTC is required to provide $750 million, $850 million, and $900 million, respectively, to PennDOT. The payment for the fiscal year ending May 31, 2011, and each fiscal year thereafter for the remainder of the lease term, will be the amount calculated for the previous year increased by 2.5 percent. The PTC will issue bonds and beginning in 2009, will raise tolls as necessary to provide funds required to meet its payment obligations to PennDOT.

On July 19, 2007 the Pennsylvania Higher Education Assistance Agency (PHEAA) issued $400 million of variable-rate student loan demand revenue bonds with an initial interest rate of 3.7 percent; this rate will reset based upon auctions every seven days.

In July 2007, the Pennsylvania Higher Educational Facilities Authority (PHEFA) issued Series AF tax-exempt bonds in the amount of $68,230,000. In connection with the bond issuance, the State System of Higher Education (SSHE) entered into a loan agreement with PHEFA under which SSHE pledged its full faith and credit for repayment of the bonds. The bonds were issued to provide funds to undertake various capital projects at SSHE universities.

On September 6, 2007 the Pennsylvania Housing Finance Agency (PHFA) issued $200 million Single Family Mortgage Revenue Bonds, Series 2007-99A through 2007-99D. The bonds are general obligations of the PHFA that bear interest at fixed and variable rates payable on each April 1 and October 1, with a final maturity date of April 1, 2038. The bonds will be primarily secured by program obligations consisting of qualifying single-family mortgage loans purchased using bond proceeds.

Also, on September 6, 2007 the PHFA entered into two separate interest rate swap agreements. The purpose of the swap agreements is to effectively convert the variable rate interest associated with the Series 2007-99C and 2007-99D bonds to a synthetic fixed rate in an effort to hedge the PHFA's exposure to interest rate fluctuations and to take advantage of interest rate environments in the financial markets. Under the term of the agreement, the PHFA is to pay the counterparty a fixed rate of 3.885 percent and 5.149 percent respectively, for Series 2007-99C and Series 2007-99D bonds and receive from the counterparty a variable rate equal to 69 percent of one-month LIBOR and one-month LIBOR, respectively, for Series 2007-99C and Series 2007-99D bonds.

NOTE R – SUBSEQUENT EVENTS (continued)

On September 7, 2007 Congress passed the College Cost Reduction and Access Act and the President signed the Act into law on September 27, 2007. This Act affects the PHEAA and is expected to cause the following revenue decreases or expense increases:

- For Stafford and Consolidation loans first disbursed on or after October 1, 2007, special allowance payments to PHEAA will be 0.4 percent lower;
- For PLUS loans first disbursed on or after October 1, 2007, special allowance payments to PHEAA will be 0.7 percent lower;
- For all loans first disbursed on or after October 1, 2007, lender origination fees paid to the United States Department of Education (USDE) will increase from 0.5 percent to 1.0 percent;
- Effective October 1, 2007, retention of collections on defaulted loans will decrease from 23 percent to 16 percent;
- Effective October 1, 2007, the account maintenance fee received from USDE for outstanding loan guarantees will decrease from 0.1 percent to 0.06 percent;
- Effective October 1, 2007, the exceptional performer section of applicable law will be eliminated;
- Effective October 1, 2012, lender insurance for loans first disbursed on or after October 1, 2012 will decrease from 97 percent to 95 percent; and
- Effective July 1, 2009, the parent PLUS program will be converted to an auction-type program.

Required Supplementary Information

Farm Produce, Green Dragon Market, Ephrata

Lancaster County

BUDGETARY COMPARISON SCHEDULE
Budgeted Major Funds
General Fund *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds	$ 25,074,800	$ 204,399	$ 25,279,199	$ 354,816	$ 25,634,015
Liquor store profits transfer	150,000	-	150,000	-	150,000
Licenses and fees	118,900	207	119,107	477	119,584
Fines, penalties and interest	30,400	3,425	33,825	7,872	41,697
Investment income	156,600	33,922	190,522	77,955	268,477
Unclaimed property	47,900	11,730	59,630	26,955	86,585
Departmental services	2,234,327	222,112	2,456,439	-	2,456,439
Miscellaneous	120,900	(6,647)	114,253	(15,275)	98,978
TOTAL STATE PROGRAMS	27,933,827	469,148	28,402,975	452,800	28,855,775
Federal Programs	15,909,531	210,591	16,120,122	(178,321)	15,941,801
TOTAL REVENUES	43,843,358	679,739	44,523,097	274,479	44,797,576
EXPENDITURES:					
State Programs:					
Direction and supportive services	1,020,162	(8,433)	1,011,729	(533)	1,011,196
Protection of persons and property	2,921,225	497,847	3,419,072	(1,013)	3,418,059
Health and human services	11,093,498	(31,132)	11,062,366	(19,080)	11,043,286
Public education	10,895,331	(65,699)	10,829,632	-	10,829,632
Recreation and cultural enrichment	325,389	3,034	328,423	-	328,423
Debt service	849,033	(341)	848,692	-	848,692
Economic development	836,466	32,062	868,528	(254)	868,274
Transportation	406,972	-	406,972	-	406,972
TOTAL STATE PROGRAMS	28,348,076	427,338	28,775,414	(20,880)	28,754,534
Federal Programs	15,909,531	210,591	16,120,122	(178,321)	15,941,801
TOTAL EXPENDITURES	44,257,607	637,929	44,895,536	(199,201)	44,696,335
REVENUES OVER/(UNDER) EXPENDITURES	(414,249)	41,810	(372,439)	473,680	101,241
OTHER FINANCING SOURCES (USES):					
Prior year lapses	-	84,483	84,483	-	84,483
Transfer to Budget Stabilization Reserve Fund	-	-	-	(176,971)	(176,971)
TOTAL OTHER FINANCING SOURCES (USES)	-	84,483	84,483	(176,971)	(92,488)
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(414,249)	126,293	(287,956)	296,709	8,753
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2006, RESTATED	522,161	-	522,161	-	522,161
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007	$ 107,912	$ 126,293	$ 234,205	$ 296,709	$ 530,914

- The notes to required supplementary information are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Major Funds
Special Revenue Fund-Motor License *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds	$ 1,275,090	$ -	$ 1,275,090	$ (19,729)	$ 1,255,361
Licenses and fees	874,110	-	874,110	(4,071)	870,039
Fines, penalties and interest	30,740	-	30,740	951	31,691
Investment income	114,000	-	114,000	(2,726)	111,274
Departmental services	66,353	(9,428)	56,925	-	56,925
Miscellaneous	28,880	-	28,880	(6,469)	22,411
TOTAL STATE PROGRAMS	2,389,173	(9,428)	2,379,745	(32,044)	2,347,701
Federal Programs	1,454,810	31,540	1,486,350	(194,619)	1,291,731
TOTAL REVENUES	3,843,983	22,112	3,866,095	(226,663)	3,639,432
EXPENDITURES:					
State Programs:					
Direction and supportive services	83,477	192	83,669	(66)	83,603
Protection of persons and property	682,185	2,839	685,024	(5,255)	679,769
Public education	1,230	-	1,230	-	1,230
Recreation and cultural enrichment	1,000	-	1,000	-	1,000
Debt service	22,883	-	22,883	(89)	22,794
Transportation	1,837,703	(9,179)	1,828,524	(6,000)	1,822,524
TOTAL STATE PROGRAMS	2,628,478	(6,148)	2,622,330	(11,410)	2,610,920
Federal Programs	1,454,810	31,540	1,486,350	(194,619)	1,291,731
TOTAL EXPENDITURES	4,083,288	25,392	4,108,680	(206,029)	3,902,651
REVENUES UNDER EXPENDITURES	(239,305)	(3,280)	(242,585)	(20,634)	(263,219)
OTHER FINANCING SOURCES:					
Prior year lapses	-	76,132	76,132	-	76,132
TOTAL OTHER FINANCING SOURCES	-	76,132	76,132	-	76,132
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(239,305)	72,852	(166,453)	(20,634)	(187,087)
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2006	283,719	-	283,719	-	283,719
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007	$ 44,414	$ 72,852	$ 117,266	$ (20,634)	$ 96,632

- The notes to required supplementary information are an integral part of this schedule. -

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Budget Preparation Process

The process of preparing the General Fund Budget for the Commonwealth of Pennsylvania begins nearly one year before the new budget takes effect on July 1 each year. The budget process begins in August of the year previous to the budget year with the distribution of both the Budget Instructions and Program Policy Guidelines by the Office of the Budget and the Governor's Office, respectively. These provide detailed guidelines and define major policy issues to be considered when agencies complete their budget requests. As required by statute, agencies must prepare budgets that indicate the cost of supporting activities at the level expected in the immediate budget year and the ensuing four budget years. The five-year horizon does not include future program changes but considers the requirements and demands of current law, regulation, policy and program decisions.

Agencies submit budget requests to the Secretary of the Budget beginning in early October. From October through January, the Office of the Budget reviews these requests for accuracy and adherence to policy guidelines and prepares funding recommendations for the Secretary of the Budget and the Governor.

During December, the Governor meets with leaders of the General Assembly to inform them of anticipated spending and revenue levels and to discuss related budgetary issues. The Governor then conducts reviews to make the final budget decisions. The Governor's Executive Budget is finalized in January and is submitted to the General Assembly in early February.

After receiving the budget document, the appropriations committees of both houses of the legislature hold hearings to review agency funding requests. The General Assembly passes the budget in the form of a General Appropriations Bill and individual appropriations bills. At the time of passage of these bills and their presentation to the Governor, the official revised revenue estimates for the budget year are issued. If the combined appropriations bills passed by the legislature exceed the revenue estimates, the Governor is required and has the authority to either veto entire appropriations bills or to reduce the amount of appropriations in order to produce a budget that is in balance. The Governor also has the power to reduce or veto any specific appropriation even if the total appropriations do not exceed estimated revenues. The Governor's signing of the appropriations bills and any revenue bills is the last step in the approval stage of the budget.

Additional information regarding Pennsylvania's budgeting process may be located at: http://www.oit.state.pa.us/budget

Note 2 – Basis of Budgeting

On the budgetary basis, certain estimated tax revenue accruals are recorded at fiscal year end for the **General Fund** and the **Motor License Fund**, a Special Revenue Fund. Accruals include sales and use taxes and personal income taxes, both applicable to the General Fund, and liquid fuels taxes applicable to the **Motor License Fund**. These taxes are estimated to be owed to the Commonwealth but are not collected by fiscal year end. Also, estimated encumbrances are established for all funds at fiscal year end to pay certain direct expenditures for salaries, wages, travel, and utility costs payable against current year appropriation authority but expended in the subsequent year. Over-estimates of prior year encumbrances are lapsed in the subsequent year and under-estimates are charged to subsequent year appropriation authority.

Budgeted revenues in the Budgetary Comparison Schedules represent official estimates while expenditures represent amounts originally adopted or legally amended. Actual amounts are presented on the budgetary basis. Because the budgetary basis differs from the modified accrual basis of accounting for governmental funds, a reconciliation of the differences between budgetary basis and the modified accrual basis of reporting is presented.

Note 3 - Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts formal annual budgets for two major governmental funds (**General Fund** and **Motor License Fund**, a Special Revenue Fund) and three nonmajor governmental funds (Workers' Compensation Administration, Banking Department, and Milk Marketing, Special Revenue funds). The Budgetary Comparison Schedules for Budgeted Major and Nonmajor Funds presents comparisons of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals.

The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

	Major Budgeted Funds	
	General Fund	Motor License Fund
Budgetary basis — revenues and other sources over expenditures and other uses…….	$8,753	$(187,087)
Adjustments:		
To adjust revenues, other financing sources and related receivables and deferred revenue…….……...	(1,377,766)	933,749
To adjust expenditures, other financing uses and related accounts payable and and accrued liabilities……...	1,770,330	(876,959)
Net adjustments……	392,564	56,790
Modified accrual basis – net change in governmental fund balance……	$401,317	$(130,297)

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals; amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

Note 4 – Budgetary Compliance

The General Assembly passes, and the Governor approves (or reduces or vetoes), individual appropriations as part of the annual budget adoption process. Budgetary expenditure control occurs at the appropriation level; this is the lowest level of legislative spending control. Encumbrances and expenditures within individual appropriations may not exceed total amounts appropriated plus actual augmentations (certain revenues credited to specific appropriations). Also, appropriation transfers between or within departments and any supplemental appropriations require both legislative and gubernatorial approval. The legislatively adopted budget for the **General Fund** includes $291.1 million in supplemental appropriations approved during the fiscal year ended June 30, 2007.

A separately available report, the "*Status of Appropriations*," demonstrates budgetary expenditure compliance for the **General Fund** for the fiscal year ended June 30, 2007. This report includes a variety of detail information and summaries related to individual appropriations. A second "*Status of Appropriations*" report (for Special Funds) demonstrates compliance for the four budgeted Special Revenue funds: **Motor License**, Workers' Compensation Administration, Banking Department and Milk Marketing. Both "*Status*" reports are available online at the Office of the Budget internet site: http://www.budget.state.pa.us. The Governor controls spending by using executive authorizations for Special Revenue funds not controlled by legislatively adopted budgets.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Total reported actual expenditures for "Total State Programs" included in the Budgetary Comparison Schedule – Budgeted Major Funds are based on appropriation, augmentation and lapse amounts reported in the respective June 30, 2007 "*Status of Appropriations*" (Total All Current State Ledgers) as follows (in thousands):

	"*Status*" Page Reference	Total Approved Appropriations	+	Total Actual Augmentations	-	Total Actual Lapses	=	Actual Expenditure Amounts
General Fund amounts	7[1]	$ 27,368,975		$ 2,456,439		$ 20,880		$ 29,804,534
Less: tax refunds.....	7[1]	(1,050,000)		-		-		(1,050,000)
Amount reported.....		$ 26,318,975		$ 2,456,439		$ 20,880		$ 28,754,534
Special Revenue Funds:								
Motor License Fund.....	52	$ 3,546,853		$ 1,327,093		$ 32,493		$ 4,841,453
less: reductions[2]		(981,448)		(1,270,168)		(21,083)		(2,230,533)
Amount reported.....		$ 2,565,405		$ 56,925		$ 11,410		$ 2,610,920
Workers' Compensation Administration Fund 256		$ 61,231		$ 184		$ -		$ 61,415
Banking Department Fund.....	97	$ 18,009		$ -		$ 5		$ 18,004
Milk Marketing Fund.....103		$ 2,742		$ -		$ 5		$ 2,737

Total actual expenditures for "Federal Programs" for the **General Fund** are derived from the **General Fund** "*Status*", page no. 241 "Summary of All Current Federal Ledgers by Character of Expenditure" as follows (in thousands): Commitments of $726,444, Expenditures of $12,970,598, and Available Balances of $2,244,759 for a total of $15,941,801.

Total actual expenditures for "Federal Programs," for the **Motor License Fund** are derived from the **Special Funds** "*Status*", page no. 81 "Summary of Federal Ledgers by Type" as follows (in thousands): Commitments of $2,958, Expenditures of $17,585, and Available Balances of $2,367 for a total of $22,910; plus $1,268,821 (source in footnote 3 below) for a Motor License Fund total of $1,291,731.

[1] Page no. 7, "Summary of All Current State Ledgers by Character of Expenditure," **General Fund** "*Status of Appropriations*."

[2] Excludes the following appropriation symbols, beginning on page 55, **Special Funds** "*Status of Appropriations***:**" 010-78-571-06-16; 010-78-572-06-16; 010-78-579-06-16; 010-73-132-06-26; 010-38-226-06-26; 010-78-172-06-26; 010-78-173-06-26; 010-78-174-06-26; and 010-78-177-06-26 through 010-78-185-06-26.

[3] The amount of $1,268,821 is found in the Year-to-Date column for "Total Federal Revenue Augmenting Current State Expenditure Symbols" on page 116 of the June 30, 2007 "*Report of Revenues and Receipts*". This amount, less $221,585 (for revenue codes 010811-008181-101; 010811-008232-101; 010811-008284-101; 010811-008284-102; 010811-008289-101; and 010811-008289-102) equals $1,047,236, the net reduction of federal funds from Motor License Fund Actual Augmentations.

Combining Financial Statements

Including

Nonmajor Budgetary Comparison Schedules

Kennywood Amusement Park, West Mifflin

Allegheny County

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
ASSETS				
Cash	$ 8,678	$ -	$ -	$ 8,678
Temporary investments	1,766,344	20,885	770,667	2,557,896
Long-term investments	476,678	-	-	476,678
Receivables, net:				
Taxes	24,400	-	-	24,400
Accounts	16,152	3,379	4,371	23,902
Accrued interest	6,158	51	3,164	9,373
Notes and loans	39,859	-	-	39,859
Lease rentals	-	652	-	652
Investment sale proceeds	1,730	-	-	1,730
Other	20,889	-	-	20,889
Due from other funds	29,930	-	19,219	49,149
Due from component units	-	-	25,570	25,570
Due from Federal government	19,557	-	-	19,557
Due from political subdivisions	-	-	91	91
Advances to other funds	3,000	-	-	3,000
TOTAL ASSETS	$ 2,413,375	$ 24,967	$ 823,082	$ 3,261,424
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 173,143	$ -	$ 169,409	$ 342,552
Investment purchases payable	7,361	-	-	7,361
Securities lending obligations	235,611	462	17,369	253,442
Due to other funds	6,469	-	8,444	14,913
Due to component units	12	-	-	12
Due to pension trust funds	244	-	-	244
Due to political subdivisions	31,968	-	62,187	94,155
Due to other governments	8,502	-	993	9,495
Unearned revenue	19,820	4,031	-	23,851
Advances from other funds	10,333	-	-	10,333
TOTAL LIABILITIES	493,463	4,493	258,402	756,358
Fund balances:				
Reserved for:				
Encumbrances	384,899	-	945,051	1,329,950
Advances	3,000	-	-	3,000
Loans receivable	39,859	-	-	39,859
Other	93,790	-	3,796	97,586
Unreserved:				
Designated for:				
Capital projects	-	-	65,455	65,455
Debt service:				
Retirement of general obligation bonds	-	20,474	-	20,474
Other	11,268	-	-	11,268
Undesignated (deficit)	1,387,096	-	(449,622)	937,474
TOTAL FUND BALANCES	1,919,912	20,474	564,680	2,505,066
TOTAL LIABILITIES AND FUND BALANCES	$ 2,413,375	$ 24,967	$ 823,082	$ 3,261,424

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total
REVENUES:				
Taxes	$ 464,974	$ -	$ 18,698	$ 483,672
Licenses and fees	709,590	-	-	709,590
Intergovernmental	161,708	-	-	161,708
Charges for sales and services	126,492	-	20,631	147,123
Investment income	152,200	318	30,752	183,270
Lease rental principal and interest	-	99	-	99
Interest on notes and loans	128	-	-	128
Other	19,079	1,017	48	20,144
TOTAL REVENUES	1,634,171	1,434	70,129	1,705,734
EXPENDITURES:				
Current:				
Direction and supportive services	146,201	-	(377)	145,824
Protection of persons and property	450,880	-	1,148	452,028
Health and human services	375,986	-	-	375,986
Public education	59,266	-	7,538	66,804
Recreation and cultural enrichment	138,547	-	52,144	190,691
Economic development	229,234	-	299,458	528,692
Transportation	178,466	-	149,397	327,863
Capital outlay	50,149	-	374,182	424,331
Debt service:				
Principal retirement	-	521,773	-	521,773
Interest and fiscal charges	-	357,858	-	357,858
TOTAL EXPENDITURES	1,628,729	879,631	883,490	3,391,850
REVENUES OVER (UNDER) EXPENDITURES	5,442	(878,197)	(813,361)	(1,686,116)
OTHER FINANCING SOURCES (USES):				
Bonds issued	110,006	-	898,098	1,008,104
Refunding bonds issued	-	250,557	-	250,557
Premium on bonds/refunding bonds issued	5,298	3,336	49,532	58,166
Discount on bonds issued	(157)	-	-	(157)
Transfers in	372,504	890,552	-	1,263,056
Transfers out	(170,626)	-	-	(170,626)
Payment to refunded bond escrow agent	-	(253,892)	-	(253,892)
NET OTHER FINANCING SOURCES	317,025	890,553	947,630	2,155,208
NET CHANGE IN FUND BALANCES	322,467	12,356	134,269	469,092
FUND BALANCES JULY 1, 2006	1,597,445	8,118	430,411	2,035,974
FUND BALANCES JUNE 30, 2007	$ 1,919,912	$ 20,474	$ 564,680	$ 2,505,066

Special Revenue Funds

Including

Nonmajor Budgetary Comparison Schedules

Whitewater Rafting, Ohiopyle State Park

Fayette County

SPECIAL REVENUE FUNDS
DESCRIPTION
NONMAJOR FUNDS

Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Banking Department Fund — to account for the administration of the Department of Banking and regulation of financial institutions. Revenue is received from fees, assessments, charges and penalties collected or recovered from persons, firms, corporations or associations regulated by the Department of Banking.

Milk Marketing Fund — to account for the operation of the Milk Marketing Board and to serve as a depository for amounts due to dairy farmers from underpayments by dealers. Revenue is received from license fees, fines, penalties and permits relating to the milk industry.

Workers' Compensation Administration Fund — to account for the administration of the Pennsylvania Workers' Compensation Act and the Pennsylvania Occupational Disease Act. Insurance companies and self-insured businesses are assessed a periodic fee for costs incurred in administering these acts.

Workers' Compensation Security Fund — to account for the payment of workers' compensation claims to individuals who are insured by an insolvent insurance company and for the costs to administer the program. Funds are derived from an annual assessment on all insurance carriers authorized to transact and provide workmen's compensation insurance in the Commonwealth.

Catastrophic Loss Benefits Fund — to account for the payment of medical and rehabilitative expenses over $100,000 to a lifetime aggregate of $1 million to residents injured in a motor vehicle accident.

Environmental Stewardship Fund — to account for revenues from certain landfill fees and expenditures for farmland preservation projects, open space protection, abandoned mine reclamation, watershed protection and restoration, water and sewer infrastructure, and the improvement of conservation of Commonwealth and community parks and recreational facilities.

Recycling Fund — to account for grants for recycling solid waste, market and waste minimization studies and public information and educational activities. Financing for the planning, processing, resource recovery and recycling of solid waste is generated by a fee on all waste disposed of in landfills or processed by resource recovery facilities.

Gaming Fund — to account for the administration of the Race Horse Development and Gaming Act. Revenue is received from license fees and a percentage of the gross terminal revenue (GTR) generated by licensed gaming facilities.

Growing Greener Bond Fund — to account for certain bond issuance financing and expenditures for environmental projects such as watershed protection, mine drainage remediation, advanced energy, flood protection, brownfields remediation, state parks and forest facilities, open space conservation, farm land preservation, capital improvement projects for fishing, boating and hunting, and for county environmental initiatives.

Water Supply and Wastewater Treatment Fund — to provide single-year or multiyear grants to municipalities and municipal authorities and loans to municipalities, municipal authorities, industrial development corporations and investor-owned water or wastewater enterprises for projects which construct, expand or improve water and wastewater infrastructure.

Other — to account for programs related to restoration, conservation, protection and management of natural resources; the payment of prescription drugs for eligible citizens 65 years or older; the preservation of historical landmarks; administrative and regulatory activities of various departmental programs; and miscellaneous Commonwealth activities. This "Other" category is an aggregation of sixty-four individual special revenue funds.

There are a total of seventy-six individual special revenue funds; **Motor License** and **Tobacco Settlement** special revenue funds are reported as Major Funds in the basic financial statements.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Budgeted Funds											
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Environmental Stewardship	Recycling	Gaming	Growing Greener Bond	Water Supply and Wastewater Treatment	Other	Total
ASSETS												
Cash	$ 2	$ -	$ -	$ 1,454	$ 1	$ -	$ 3	$ 5,462	$ -	$ -	$ 1,756	$ 8,678
Temporary investments	38,772	2,754	77,355	151,067	123,849	73,955	87,550	339,665	109,351	99,474	662,552	1,766,344
Long-term investments	-	-	-	476,678	-	-	-	-	-	-	-	476,678
Receivables, net:												
Taxes	-	-	-	-	-	-	-	-	-	-	24,400	24,400
Accounts	4,993	-	9	1	-	-	-	24	-	-	11,125	16,152
Accrued interest	-	-	-	3,621	-	-	-	1,344	477	379	337	6,158
Loans	-	-	-	-	-	-	-	-	-	12,258	27,601	39,859
Investment sale proceeds	-	-	-	1,730	-	-	-	-	-	-	-	1,730
Other	-	-	-	-	-	-	-	-	-	-	20,889	20,889
Due from other funds	-	-	-	-	-	-	-	-	-	-	29,930	29,930
Due from Federal government	-	-	-	-	-	-	-	-	-	-	19,557	19,557
Advances to other funds	-	-	-	-	-	-	-	-	-	-	3,000	3,000
TOTAL ASSETS	$ 43,767	$ 2,754	$ 77,364	$ 634,551	$ 123,850	$ 73,955	$ 87,553	$ 346,495	$ 109,828	$ 112,111	$ 801,147	$ 2,413,375
LIABILITIES AND FUND BALANCES												
Liabilities:												
Accounts payable and accrued liabilities	$ 1,095	$ 91	$ 3,119	$ 1,237	$ 1,463	$ 5,027	$ 1,454	$ 27,817	$ 10,105	$ 2,243	$ 119,492	$ 173,143
Investment purchases payable	-	-	-	7,361	-	-	-	-	-	-	-	7,361
Securities lending obligations	4,321	307	-	113,174	13,802	8,242	9,757	7,655	2,465	2,242	73,646	235,611
Due to other funds	182	30	109	29	12	-	1	27	-	-	6,079	6,469
Due to component units	-	-	-	-	-	-	-	-	-	-	12	12
Due to pension trust funds	13	2	36	-	-	-	-	-	-	-	193	244
Due to political subdivisions	-	-	-	-	-	1,945	4,831	11,601	2,687	5,486	5,418	31,968
Due to other governments	13	4	52	-	-	89	-	-	-	-	8,344	8,502
Unearned revenue	3,955	684	278	-	-	-	-	-	-	-	14,903	19,820
Advances from other funds	-	-	-	-	-	-	-	-	-	-	10,333	10,333
TOTAL LIABILITIES	9,579	1,118	3,594	121,801	15,277	15,303	16,043	47,100	15,257	9,971	238,420	493,463
Fund balances:												
Reserved for:												
Encumbrances	334	45	3,066	8,134	508	45,923	14,076	359	111,985	164,792	35,677	384,899
Advances	-	-	-	-	-	-	-	-	-	-	3,000	3,000
Loans receivable	-	-	-	-	-	-	-	-	-	12,258	27,601	39,859
Other	-	-	738	-	-	-	819	18,489	-	-	73,744	93,790
Unreserved:												
Designated for:												
Other	-	-	-	-	-	11,268	-	-	-	-	-	11,268
Undesignated (deficit)	33,854	1,591	69,966	504,616	108,065	1,461	56,615	280,547	(17,414)	(74,910)	422,705	1,387,096
TOTAL FUND BALANCES	34,188	1,636	73,770	512,750	108,573	58,652	71,510	299,395	94,571	102,140	562,727	1,919,912
TOTAL LIABILITIES AND FUND BALANCES	$ 43,767	$ 2,754	$ 77,364	$ 634,551	$ 123,850	$ 73,955	$ 87,553	$ 346,495	$ 109,828	$ 112,111	$ 801,147	$ 2,413,375

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Special Revenue Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Budgeted Funds											
	Banking Department	Milk Marketing	Workers' Compensation Admin.	Workers' Compensation Security	Catastrophic Loss Benefits	Environmental Stewardship	Recycling	Gaming	Growing Greener Bond	Water Supply and Wastewater Treatment	Other	Total
REVENUES:												
Taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 251,059	$ -	$ -	$ 213,915	$ 464,974
Licenses and fees	6,163	2,483	10	37,206	-	79,710	43,031	324,968	-	-	216,019	709,590
Intergovernmental	-	-	-	-	-	-	-	-	-	-	161,708	161,708
Charges for sales and services	10,400	-	60,435	-	-	-	-	15	-	-	55,642	126,492
Investment income	2,870	215	3,222	52,935	9,221	6,675	6,456	8,240	7,597	2,651	52,118	152,200
Interest on notes and loans	-	-	-	-	-	-	-	-	-	-	128	128
Other	64	-	114	182	7	-	18	5	-	78	18,611	19,079
TOTAL REVENUES	19,497	2,698	63,781	90,323	9,228	86,385	49,505	584,287	7,597	2,729	718,141	1,634,171
EXPENDITURES:												
Current:												
Direction and supportive services	28	-	-	1	-	-	-	144,220	21	61	1,870	146,201
Protection of persons and property	17,549	2,632	171	69,152	7,945	17,700	40,917	9,341	62,469	-	223,004	450,880
Health and human services	-	-	55,320	-	-	-	-	43	-	-	320,623	375,986
Public education	-	-	-	-	-	-	-	-	2,061	-	57,205	59,266
Recreation and cultural enrichment	-	-	-	-	-	3,822	-	8,416	14,664	-	111,645	138,547
Economic development	-	-	169	-	-	13,148	-	-	5,451	38,520	171,946	229,234
Transportation	-	-	-	-	-	-	-	-	-	-	178,466	178,466
Capital outlay	-	-	100	-	-	9,898	-	-	32,430	-	7,721	50,149
TOTAL EXPENDITURES	17,577	2,632	55,760	69,153	7,945	44,568	40,917	162,020	117,096	38,581	1,072,480	1,628,729
REVENUES OVER (UNDER) EXPENDITURES	1,920	66	8,021	21,170	1,283	41,817	8,588	422,267	(109,499)	(35,852)	(354,339)	5,442
OTHER FINANCING SOURCES (USES):												
Bonds issued	-	-	-	-	-	-	-	-	27,004	83,002	-	110,006
Premium on bonds/refunding bonds issued	-	-	-	-	-	-	-	-	1,528	3,770	-	5,298
Discount on bonds issued	-	-	-	-	-	-	-	-	-	(157)	-	(157)
Transfers in	-	-	-	-	-	-	-	-	-	-	372,504	372,504
Transfers out	-	-	(1,000)	-	-	(38,210)	-	(125,000)	-	-	(6,416)	(170,626)
NET OTHER FINANCING SOURCES (USES)	-	-	(1,000)	-	-	(38,210)	-	(125,000)	28,532	86,615	366,088	317,025
NET CHANGE IN FUND BALANCES	1,920	66	7,021	21,170	1,283	3,607	8,588	297,267	(80,967)	50,763	11,749	322,467
FUND BALANCES, JULY 1, 2006	32,268	1,570	66,749	491,580	107,290	55,045	62,922	2,128	175,538	51,377	550,978	1,597,445
FUND BALANCES, JUNE 30, 2007	$ 34,188	$ 1,636	$ 73,770	$ 512,750	$ 108,573	$ 58,652	$ 71,510	$ 299,395	$ 94,571	$ 102,140	$ 562,727	$ 1,919,912

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Banking Department *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees	$ 14,582	$ 1,041	$ 15,623	$ 220	$ 15,843
Fines, penalties and interest	420	580	1,000	(505)	495
Investment income	1,334	266	1,600	669	2,269
Miscellaneous	-	-	-	2	2
TOTAL REVENUES	16,336	1,887	18,223	386	18,609
EXPENDITURES:					
State Programs:					
Direction and supportive services	5	-	5	(5)	-
Protection of persons and property	18,004	-	18,004	-	18,004
TOTAL EXPENDITURES	18,009	-	18,009	(5)	18,004
REVENUES OVER (UNDER) EXPENDITURES	(1,673)	1,887	214	391	605
OTHER FINANCING SOURCES:					
Prior year lapses	-	1,208	1,208	-	1,208
TOTAL OTHER FINANCING SOURCES	-	1,208	1,208	-	1,208
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(1,673)	3,095	1,422	391	1,813
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2006	28,648	-	28,648	-	28,648
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007	$ 26,975	$ 3,095	$ 30,070	$ 391	$ 30,461

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Banking Department Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above)	$ 1,813
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue	(320)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities	427
Net adjustments	107
Modified accrual basis — net change in governmental fund balance	$ 1,920

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 130 to 132 are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Milk Marketing *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Licenses and fees	$ 2,420	$ 80	$ 2,500	$ (35)	$ 2,465
Fines, penalties and interest	50	-	50	(32)	18
Investment income	101	-	101	75	176
Miscellaneous	-	-	-	1	1
TOTAL REVENUES	2,571	80	2,651	9	2,660
EXPENDITURES:					
State Programs:					
Direction and supportive services	5	-	5	(5)	-
Protection of persons and property	2,737	-	2,737	-	2,737
TOTAL EXPENDITURES	2,742	-	2,742	(5)	2,737
REVENUES OVER (UNDER) EXPENDITURES	(171)	80	(91)	14	(77)
OTHER FINANCING SOURCES:					
Prior year lapses	-	234	234	-	234
TOTAL OTHER FINANCING SOURCES	-	234	234	-	234
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(171)	314	143	14	157
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2006	1,166	-	1,166	-	1,166
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007	$ 995	$ 314	$ 1,309	$ 14	$ 1,323

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Milk Marketing Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources under expenditures (from Actual column above)	$ 157
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue	(196)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities	105
Net adjustments	(91)
Modified accrual basis — net change in governmental fund balance	$ 66

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 130 to 132 are an integral part of this schedule. -

BUDGETARY COMPARISON SCHEDULE
Budgeted Nonmajor Funds
Special Revenue Fund-Workers' Compensation Administration *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Original Budget	Difference	Final Budget	Difference	Actual (Budgetary Basis)
REVENUES:					
State Programs:					
Taxes, net of refunds	$ 60,231	$ -	$ 60,231	$ 19	$ 60,250
Fines, penalties and interest	4	8	12	(2)	10
Investment income	1,347	2,310	3,657	(436)	3,221
Departmental services	184	-	184	-	184
Miscellaneous	49	82	131	(15)	116
TOTAL REVENUES	61,815	2,400	64,215	(434)	63,781
EXPENDITURES:					
State Programs:					
Direction and supportive services	61,231	-	61,231	-	61,231
Economic development	184	-	184	-	184
TOTAL EXPENDITURES	61,415	-	61,415	-	61,415
REVENUES OVER EXPENDITURES	400	2,400	2,800	(434)	2,366
OTHER FINANCING SOURCES:					
Prior year lapses	-	3,810	3,810	-	3,810
TOTAL OTHER FINANCING SOURCES	-	3,810	3,810	-	3,810
REVENUES AND OTHER SOURCES OVER EXPENDITURES	400	6,210	6,610	(434)	6,176
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2006	61,780	-	61,780	-	61,780
UNRESERVED/UNDESIGNATED FUND BALANCES (BUDGETARY BASIS), JUNE 30, 2007	$ 62,180	$ 6,210	$ 68,390	$ (434)	$ 67,956

Reconciliation of Budgetary to GAAP Basis Amounts

The Commonwealth adopts a formal annual budget for the Workers' Compensation Administration Fund. The Budgetary Comparison Schedule presented above presents a comparison of the legally adopted budget, as amended, with actual data on a budgetary basis, which differs from governmental fund statement information primarily by the omission of certain revenue and expenditure accruals. The following presents a reconciliation of the budgetary basis to the modified accrual basis of reporting (amounts in thousands):

Budgetary basis — revenues and other sources over expenditures (from Actual column above)	$ 6,176
Adjustments:	
To adjust revenues, other financing sources and related receivables and deferred revenue	(3,810)
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities	4,655
Net adjustments	845
Modified accrual basis — net change in governmental fund balance	$ 7,021

The above revenue adjustments include net revenue accruals/deferrals, amounts to recognize certain pass-through grants and amounts to recognize certain intergovernmental revenues that are not reported for budgetary reporting purposes. Likewise, the above expenditure adjustments include net expenditure accruals, amounts to recognize certain pass-through grants and amounts to recognize certain expenditures related to Federal and other grants that are not reported for budgetary reporting purposes.

- The notes on pages 130 to 132 are an integral part of this schedule. -

Debt Service Funds

Sculpture Garden, Frank Lloyd Wright's House on Kentuck Knob

Fayette County

DEBT SERVICE FUNDS
DESCRIPTION
NONMAJOR FUNDS

Debt service funds account for the accumulation of resources, principally from transfers from other Funds, for the payment of general long-term debt principal and interest.

Disaster Relief Redemption Fund — these funds account for the payment of principal and interest on bonds issued for the rehabilitation of areas of the Commonwealth affected by the floods of 1971, 1972, and 1977. Funding consists of transfers from the General Fund and investment income.

Pennsylvania Infrastructure Investment Authority (PENNVEST) Redemption Fund — to account for the payment of principal and interest on bonds issued for loans to local water companies for the repair, construction, extension and improvement of water supply systems, dams and port facilities and water control systems. Funding consists of transfers from the General Fund and the Pennsylvania Infrastructure Investment Authority Fund and investment income.

Capital Debt Fund — to account for the payment of principal and interest related to general obligation bonds issued for capital projects authorized by Capital Budget Acts. Funding consists of transfers from the General Fund and the Motor License Fund, facility rental and investment income.

Pennsylvania Economic Revitalization Sinking Fund — to account for the payment of principal and interest on bonds issued for the promotion of economic redevelopment throughout Pennsylvania for grants and loans for industrial and small business development. Funding consists of transfers from the General Fund and the Pennsylvania Economic Revitalization Fund and investment income.

Water Facilities Loan Redemption Fund — to account for the payment of principal and interest on bonds issued for the implementation of the water project loan referendum to provide loans to local water companies for repair, construction and improvement to water supply systems. Funding consists of transfers from the General Fund and the Water Facilities Loan Fund, investment income and proceeds from the sale, lease or disposal of loan collateral.

Land and Water Development Sinking Fund — to account for the payment of principal and interest on bonds issued for the acquisition, development and improvements to Commonwealth land and water facilities. Funding consists of transfers from the General Fund, the Land and Water Development Fund and investment income.

Other — these funds account for the payment of principal and interest on bonds issued for loans to nursing homes and volunteer fire companies, compensation to Vietnam conflict veterans, finance of various environmental initiatives and for water and wastewater infrastructure projects related to economic development. Funding consists primarily of transfers from the General Fund and investment income. This other category is an aggregation of eleven individual debt service funds.

There are a total of seventeen individual debt service funds; all are reported as nonmajor funds.

COMBINING BALANCE SHEET-NONMAJOR GOVERNMENTAL FUNDS
Debt Service Funds

June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
ASSETS								
Temporary investments	$ -	$ 374	$ 20,131	$ -	$ -	$ 231	$ 149	$ 20,885
Receivables, net:								
Accounts	-	-	3,379	-	-	-	-	3,379
Accrued interest	-	-	50	-	-	1	-	51
Lease rentals	-	-	652	-	-	-	-	652
TOTAL ASSETS	$ -	$ 374	$ 24,212	$ -	$ -	$ 232	$ 149	$ 24,967
LIABILITIES AND FUND BALANCES								
Liabilities:								
Securities lending obligations	$ -	$ -	$ 454	$ -	$ -	$ 5	$ 3	$ 462
Unearned revenue	-	-	4,031	-	-	-	-	4,031
TOTAL LIABILITIES	-	-	4,485	-	-	5	3	4,493
Fund balances:								
Unreserved:								
Designated for:								
Debt service:								
Retirement of general obligation bonds	-	374	19,727	-	-	227	146	20,474
TOTAL FUND BALANCES	-	374	19,727	-	-	227	146	20,474
TOTAL LIABILITIES AND FUND BALANCES	$ -	$ 374	$ 24,212	$ -	$ -	$ 232	$ 149	$ 24,967

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Debt Service Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Disaster Relief Redemption	Pennsylvania Infrastructure Investment Authority Redemption	Capital Debt	Pennsylvania Economic Revitalization Sinking	Water Facilities Loan Redemption	Land and Water Development Sinking	Other	Total
REVENUES:								
Investment income	$ -	$ 6	$ 54	$ -	$ -	$ 258	$ -	$ 318
Lease rental principal and interest	-	-	99	-	-	-	-	99
Other	-	1,017	-	-	-	-	-	1,017
TOTAL REVENUES	-	1,023	153	-	-	258	-	1,434
EXPENDITURES:								
Current:								
Debt service:								
Principal retirement	1,510	4,225	508,834	340	1,440	169	5,255	521,773
Interest and fiscal charges	450	3,566	341,814	166	617	83	11,162	357,858
TOTAL EXPENDITURES	1,960	7,791	850,648	506	2,057	252	16,417	879,631
REVENUES OVER (UNDER) EXPENDITURES	(1,960)	(6,768)	(850,495)	(506)	(2,057)	6	(16,417)	(878,197)
OTHER FINANCING SOURCES (USES):								
Refunding bonds issued	-	-	250,557	-	-	-	-	250,557
Premium on bonds/refunding bonds issued	-	-	3,336	-	-	-	-	3,336
Transfers in	1,958	7,142	862,447	506	2,057	25	16,417	890,552
Payment to refunded bond escrow agent	-	-	(253,892)	-	-	-	-	(253,892)
NET OTHER FINANCING SOURCES	1,958	7,142	862,448	506	2,057	25	16,417	890,553
NET CHANGE IN FUND BALANCES	(2)	374	11,953	-	-	31	-	12,356
FUND BALANCES, JULY 1, 2006	2	-	7,774	-	-	196	146	8,118
FUND BALANCES, JUNE 30, 2007	$ -	$ 374	$ 19,727	$ -	$ -	$ 227	$ 146	$ 20,474

Capital Projects Funds

Farm Animals, Ridley Creek State Park

Delaware County

CAPITAL PROJECTS FUNDS
DESCRIPTION
NONMAJOR FUNDS

Capital projects funds account for financial resources to be used for the acquisition or construction of major capital facilities, including those provided to political subdivisions or other public organizations.

Capital Facilities Fund — to account for general obligation bond proceeds used to fund capital projects specifically itemized and authorized by Capital Budget Acts.

Keystone Recreation, Park and Conservation Fund — to account for bond proceeds and a percentage of the state realty transfer tax. The amounts are used to acquire, improve and expand Commonwealth and community parks, recreation facilities, historic sites, zoos, public libraries, nature preserves and wildlife habitats and other recreational areas and facilities.

Local Criminal Justice Fund — to account for the proceeds of bonds issued for grants to counties and multi-county authorities for the repair, expansion, construction, rehabilitation and improvement of local correctional facilities or multi-county regional prison facilities.

Land and Water Development Fund — to account for the proceeds of bonds issued for pollution remediation; grants to local governments for sewage treatment facilities; the development of public outdoor recreation areas; and, acquisition and development of park and recreation lands and related studies to determine such needs.

There are a total of four individual capital projects funds; all are reported as nonmajor funds.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
ASSETS					
Temporary investments	$ 608,093	$ 160,623	$ 304	$ 1,647	$ 770,667
Receivables, net:					
Accounts	4,371	-	-	-	4,371
Accrued interest	2,456	700	1	7	3,164
Due from other funds	11,697	7,522	-	-	19,219
Due from component units	25,570	-	-	-	25,570
Due from political subdivisions	91	-	-	-	91
TOTAL ASSETS	$ 652,278	$ 168,845	$ 305	$ 1,654	$ 823,082
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 162,683	$ 6,726	$ -	$ -	$ 169,409
Securities lending obligations	13,705	3,620	7	37	17,369
Due to other funds	4	8,440	-	-	8,444
Due to political subdivisions	60,972	1,215	-	-	62,187
Due to other governments	993	-	-	-	993
TOTAL LIABILITIES	238,357	20,001	7	37	258,402
Fund balances:					
Reserved for:					
Encumbrances	859,043	83,389	2,259	360	945,051
Other	2,159	-	-	1,637	3,796
Unreserved:					
Designated for:					
Capital projects	-	65,455	-	-	65,455
Undesignated deficit	(447,281)	-	(1,961)	(380)	(449,622)
TOTAL FUND BALANCES	413,921	148,844	298	1,617	564,680
TOTAL LIABILITIES AND FUND BALANCES	$ 652,278	$ 168,845	$ 305	$ 1,654	$ 823,082

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS

Capital Projects Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Capital Facilities	Keystone Recreation, Park and Conservation	Local Criminal Justice	Land and Water Development	Total
REVENUES:					
Taxes	$ -	$ 18,698	$ -	$ -	$ 18,698
Charges for sales and services	20,631	-	-	-	20,631
Investment income	21,125	9,592	28	7	30,752
Other	8	40	-	-	48
TOTAL REVENUES	41,764	28,330	28	7	70,129
EXPENDITURES:					
Current:					
Direction and supportive services	(377)	-	-	-	(377)
Protection of persons and property	644	-	501	3	1,148
Public education	79	7,459	-	-	7,538
Recreation and cultural enrichment	-	52,144	-	-	52,144
Economic development	299,458	-	-	-	299,458
Transportation	149,397	-	-	-	149,397
Capital outlay	359,610	14,572	-	-	374,182
TOTAL EXPENDITURES	808,811	74,175	501	3	883,490
REVENUES OVER (UNDER) EXPENDITURES	(767,047)	(45,845)	(473)	4	(813,361)
OTHER FINANCING SOURCES:					
Bonds issued	898,098	-	-	-	898,098
Premium on bonds/refunding bonds issued	49,532	-	-	-	49,532
NET OTHER FINANCING SOURCES	947,630	-	-	-	947,630
NET CHANGE IN FUND BALANCES	180,583	(45,845)	(473)	4	134,269
FUND BALANCES JULY 1, 2006	233,338	194,689	771	1,613	430,411
FUND BALANCES JUNE 30, 2007	$ 413,921	$ 148,844	$ 298	$ 1,617	$ 564,680

Enterprise Funds

Coal Mine Tour, Scranton

Lackawanna County

ENTERPRISE FUNDS
DESCRIPTION
NONMAJOR FUNDS

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

State Stores Fund — to account for the general operations of the Pennsylvania Liquor Control Board. Expenses include all costs associated with the operation and administration of the liquor store system and enforcement of the Liquor Control Law.

Small Business First Fund — to account for and provide loans to eligible small businesses for capital development projects which will create or preserve employment opportunities and which will enhance business development in Pennsylvania. Sources of revenue and financing include loan principal and interest payments, transfers from the General Fund, Federal funds and investment income.

Volunteer Companies Loan Fund — to account for and provide low-interest loans for acquisition and replacement of volunteer fire, ambulance and rescue company equipment and facilities.

Machinery and Equipment Loan Fund — to account for and provide low-interest loans to finance machinery and equipment purchases for eligible Pennsylvania businesses to facilitate their growth, competitiveness and value-added capacity. Sources of revenue and financing include loan principal and interest payments, General Fund appropriations, capital contributions from the Commonwealth Financing Authority and investment income.

Coal and Clay Mine Subsidence Insurance Fund — to account for and provide insurance coverage to homeowners in mining areas against damages resulting from mine subsidence.

Pennsylvania Infrastructure Bank Fund — to account for and provide loans to, or enter into leases with, qualified borrowers to finance the costs of transportation projects.

Minority Business Development Fund — to account for and provide low-interest and short-term loans, loan and bond guarantees and other financial and technical assistance, to eligible minority business enterprises and for operating expenses of the Pennsylvania Minority Business Development Authority. Sources of revenue and financing include loan principal and, interest payments, transfers from the General Fund and investment income.

Other — to account for enterprise operations including activities associated with low interest loans to manufacturers, vocational rehabilitation services, and loans and grants provided to attract industrial, manufacturing or research and development enterprises to the Commonwealth. This other category is an aggregation of five individual enterprise funds.

There are a total of sixteen individual enterprise funds; **Unemployment Compensation, State Workers' Insurance, State Lottery** and **Tuition Payment** enterprise funds are reported as Major Funds in the basic financial statements.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 26, 2007)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
ASSETS									
Current assets:									
Cash	$ 18,562	$ 204	$ 44	$ -	$ -	$ 1	$ 5	$ 369	$ 19,185
Temporary investments	102,380	52,405	23,274	115,128	71,480	29,120	4,196	15,742	413,725
Receivables:									
Accounts	2,014	-	-	-	-	359	-	47	2,420
Accrued interest	-	223	96	116	-	-	20	5	460
Loans	-	16,526	14,654	11,407	-	3,870	1,250	514	48,221
Other	-	1	-	33	-	-	8	-	42
Due from other funds	29	-	-	-	-	-	-	2,857	2,886
Due from pension trust funds	-	-	-	-	-	-	-	16	16
Due from component units	-	-	-	-	-	-	-	6	6
Due from Federal government	-	-	-	-	-	-	-	57	57
Inventory	189,128	-	-	-	-	-	-	4	189,132
Total current assets	312,113	69,359	38,068	126,684	71,480	33,350	5,479	19,617	676,150
Noncurrent assets:									
Receivables:									
Loans	-	71,742	94,871	35,011	-	28,130	2,348	1,604	233,706
Non-depreciable capital assets:									
Land	323	-	-	-	-	-	-	-	323
Construction in progress	-	-	-	-	-	-	-	4,813	4,813
Depreciable capital assets:									
Buildings and building improvements	21,794	-	-	-	-	-	-	18,862	40,656
Machinery and equipment	64,191	-	-	-	68	-	-	4,788	69,047
Less: accumulated depreciation	(51,638)	-	-	-	(20)	-	-	(16,196)	(67,854)
Net depreciable capital assets	34,347	-	-	-	48	-	-	7,454	41,849
Total noncurrent assets	34,670	71,742	94,871	35,011	48	28,130	2,348	13,871	280,691
TOTAL ASSETS	346,783	141,101	132,939	161,695	71,528	61,480	7,827	33,488	956,841
LIABILITIES									
Current liabilities:									
Accounts payable and accrued liabilities	130,639	170	719	1	422	150	1	1,453	133,555
Securities lending obligations	11,083	5,840	2,594	12,830	7,966	3,245	468	1,754	45,780
Due to other funds	3,221	-	-	3	6	-	1	99	3,330
Due to pension trust funds	208	-	-	-	1	-	-	1	210
Due to other governments	937	-	-	-	2	-	-	2	941
Unearned revenue	-	-	80	-	2,951	-	-	147	3,178
Self insurance	3,774	5	-	5	22	-	3	208	4,017
Compensated absences	4,283	-	-	-	45	-	-	20	4,348
Advances from other funds	85,000	3,000	-	-	-	-	-	-	88,000
Total current liabilities	239,145	9,015	3,393	12,839	11,415	3,395	473	3,684	283,359
Non-current liabilities:									
Insurance loss liability	-	-	-	-	1,002	-	-	-	1,002
Compensated absences	22,487	-	-	-	239	-	-	1,836	24,562
Self insurance	14,924	18	-	20	89	-	12	824	15,887
Total non-current liabilities	37,411	18	-	20	1,330	-	12	2,660	41,451
TOTAL LIABILITIES	276,556	9,033	3,393	12,859	12,745	3,395	485	6,344	324,810
NET ASSETS:									
Invested in capital assets, net of related debt	34,670	-	-	-	48	-	-	12,267	46,985
Restricted for:									
Smoking cessation and other health-related programs	-	-	-	-	-	-	-	2,413	2,413
Transportation	-	-	-	-	-	58,085	-	-	58,085
Economic stimulus	-	132,068	-	148,836	-	-	7,342	-	288,246
Emergency support	-	-	129,546	-	-	-	-	-	129,546
Other purposes	35,557	-	-	-	58,735	-	-	12,464	106,756
TOTAL NET ASSETS	$ 70,227	$ 132,068	$ 129,546	$ 148,836	$ 58,783	$ 58,085	$ 7,342	$ 27,144	$ 632,031

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-NONMAJOR PROPRIETARY FUNDS

Enterprise Funds *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 26, 2007)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Sub. Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
OPERATING REVENUES:									
Sales and services	$ 1,364,524	$ -	$ -	$ 189	$ 6,393	$ -	$ 17	$ 2,125	$ 1,373,248
Interest on loans	-	3,583	1,386	1,466	-	743	170	36	7,384
Other	-	991	-	710	-	-	3	556	2,260
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTABLE ACCOUNTS	1,364,524	4,574	1,386	2,365	6,393	743	190	2,717	1,382,892
Provision for uncollectable accounts	-	-	31	-	-	-	(660)	-	(629)
NET OPERATING REVENUES	1,364,524	4,574	1,417	2,365	6,393	743	(470)	2,717	1,382,263
OPERATING EXPENSES:									
Cost of sales and services	1,271,825	789	-	496	3,594	-	272	6,900	1,283,876
Depreciation	6,046	-	-	-	-	-	-	1,790	7,836
TOTAL OPERATING EXPENSES	1,277,871	789	-	496	3,594	-	272	8,690	1,291,712
OPERATING INCOME (LOSS)	86,653	3,785	1,417	1,869	2,799	743	(742)	(5,973)	90,551
NONOPERATING REVENUES:									
Investment income	15,693	4,168	1,624	5,968	4,972	2,325	406	1,301	36,457
Other revenues	-	-	-	-	-	-	-	1,700	1,700
TOTAL NONOPERATING REVENUES	15,693	4,168	1,624	5,968	4,972	2,325	406	3,001	38,157
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	102,346	7,953	3,041	7,837	7,771	3,068	(336)	(2,972)	128,708
CONTRIBUTIONS AND TRANSFERS:									
Capital contributions	-	-	-	60,000	-	-	-	-	60,000
Transfers in	-	-	-	-	-	2,057	-	-	2,057
Transfers out	(152,000)	-	-	-	-	-	-	-	(152,000)
TOTAL CONTRIBUTIONS AND TRANSFERS	(152,000)	-	-	60,000	-	2,057	-	-	(89,943)
CHANGE IN NET ASSETS	(49,654)	7,953	3,041	67,837	7,771	5,125	(336)	(2,972)	38,765
TOTAL NET ASSETS, JULY 1, 2006	119,881	124,115	126,505	80,999	51,012	52,960	7,678	30,116	593,266
TOTAL NET ASSETS, JUNE 30, 2007	$ 70,227	$ 132,068	$ 129,546	$ 148,836	$ 58,783	$ 58,085	$ 7,342	$ 27,144	$ 632,031

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COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

Enterprise Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 26, 2007)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Receipts from customers	$ 1,365,366	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,416	$ 1,368,782
Receipts from borrowers	-	1,878	1,862	13,794	-	4,690	843	-	23,067
Receipt of premiums	-	-	-	-	6,566	-	-	-	6,566
Payments to claimants	-	-	-	-	(3,068)	-	-	-	(3,068)
Payments to borrowers	-	-	-	(20,671)	-	(13,303)	(2,718)	(475)	(37,167)
Payments for vendors, employees and other costs	(1,230,280)	(629)	-	(515)	(59)	-	(266)	(6,991)	(1,238,740)
Other receipts	-	991	-	265	-	-	15	556	1,827
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	135,086	2,240	1,862	(7,127)	3,439	(8,613)	(2,126)	(3,494)	121,267
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:									
Transfers in	-	-	-	-	-	2,057	-	-	2,057
Transfers out	(152,000)	-	-	-	-	-	-	-	(152,000)
Capital contributions	-	-	-	60,000	-	-	-	-	60,000
NET CASH PROVIDED BY (USED FOR) NON-CAPITAL FINANCING ACTIVITIES	(152,000)	-	-	60,000	-	2,057	-	-	(89,943)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:									
Acquisition and construction of capital assets	(3,047)	-	-	-	(47)	-	-	(677)	(3,771)
Disposition of capital assets	21	-	-	-	-	-	-	-	21
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(3,026)	-	-	-	(47)	-	-	(677)	(3,750)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Purchase of investments	(809,292)	(19,654)	(15,131)	(83,328)	(9,979)	(5,669)	(817)	(20,166)	(964,036)
Sales and maturities of investments	816,060	13,827	11,509	18,535	2,020	11,078	2,825	24,012	899,866
Investment income	15,693	2,824	1,258	4,602	3,632	1,796	342	1,094	31,241
Change in securities lending obligations	(1,253)	605	385	7,183	847	(648)	(235)	(454)	6,430
NET CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	21,208	(2,398)	(1,979)	(53,008)	(3,480)	6,557	2,115	4,486	(26,499)
NET INCREASE (DECREASE) IN CASH	1,268	(158)	(117)	(135)	(88)	1	(11)	315	1,075
CASH AT JULY 1, 2006	17,294	362	161	135	88	-	16	54	18,110
CASH AT JUNE 30, 2007	$ 18,562	$ 204	$ 44	$ -	$ -	$ 1	$ 5	$ 369	$ 19,185

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

Enterprise Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Stores (June 26, 2007)	Small Business First	Volunteer Companies Loan	Machinery and Equipment Loan	Coal and Clay Mine Insurance	PA Infrastructure Bank	Minority Business Development	Other	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES									
Operating income (loss)	$ 86,653	$ 3,785	$ 1,417	$ 1,869	$ 2,799	$ 743	$ (742)	$ (5,973)	$ 90,551
Depreciation and amortization	6,046	-	-	-	-	-	-	1,790	7,836
Provision for uncollectible accounts	-	-	(31)	-	-	-	660	-	629
Non-operating revenues	-	-	-	-	-	-	-	1,700	1,700
Change in assets and liabilities:									
Accounts receivable	703	(1,605)	(234)	(8,977)	-	(9,506)	(2,050)	(48)	(21,717)
Due from fiduciary funds	-	-	-	-	-	-	-	3	3
Inventory	26,160	-	-	-	-	-	-	-	26,160
Due from other funds	135	-	-	-	-	-	-	(917)	(782)
Due from component units	-	-	-	-	-	-	-	1	1
Due from other governments	-	-	-	-	-	-	-	(57)	(57)
Other current assets	4	-	-	-	-	-	-	-	4
Accounts payable and accrued liabilities	15,984	170	719	(23)	133	150	1	(169)	16,965
Due to other funds	(115)	(8)	-	-	6	-	(1)	(9)	(127)
Due to other governments	263	-	-	-	1	-	-	-	264
Unearned revenue	-	(100)	(9)	-	173	-	-	145	209
Insurance loss liability	-	-	-	-	392	-	-	-	392
Other liabilities	(747)	(2)	-	4	(65)	-	6	40	(764)
Total Adjustments	48,433	(1,545)	445	(8,996)	640	(9,356)	(1,384)	2,479	30,716
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ 135,086	$ 2,240	$ 1,862	$ (7,127)	$ 3,439	$ (8,613)	$ (2,126)	$ (3,494)	$ 121,267
Increase in fair value of investments during the fiscal year	$ 1,433	$ 854	$ 366	$ 1,017	$ 1,340	$ 528	$ 65	$ 13	$ 5,616

There were no material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

Internal Service Funds

Tuscarora Academy, Academia

Juniata County

INTERNAL SERVICE FUNDS
DESCRIPTION

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units, on a cost-reimbursement basis.

Purchasing Fund — to account for the purchase of materials, supplies, motor vehicles and other equipment by the Department of General Services for the sale or lease to other Commonwealth departments, boards or commissions. This fund is also used to account for all Commonwealth telecommunication activities, which are accounted for by the Governor's Executive Offices. Revenue is derived from reimbursements from Commonwealth agencies that use Fund services or products.

Manufacturing Fund — to account for the manufacture and sale of goods and services by inmates in the correctional institutions to the Department of Corrections, other government agencies and government-aided organizations.

There are a total of two individual internal service funds.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Purchasing	Manufacturing	Total
ASSETS			
Current assets:			
Cash	$ 3,813	$ 483	$ 4,296
Temporary investments	21,990	28,998	50,988
Receivables:			
Accounts	1,396	84	1,480
Due from other funds	8,601	1,576	10,177
Due from pension trust funds	9	939	948
Due from component units	603	3	606
Due from other governments	-	7	7
Inventory	135	10,524	10,659
Other assets	-	171	171
Total current assets	36,547	42,785	79,332
Noncurrent assets:			
Non-depreciable capital assets:			
Land	-	6	6
Depreciable capital assets:			
Land improvements	-	421	421
Buildings and building improvements	-	5,530	5,530
Machinery and equipment	76,313	23,510	99,823
Less: accumulated depreciation	(46,368)	(15,929)	(62,297)
Net depreciable capital assets	29,945	13,532	43,477
Total noncurrent assets	29,945	13,538	43,483
TOTAL ASSETS	66,492	56,323	122,815
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	17,757	7,582	25,339
Securities lending obligations	2,451	3,232	5,683
Due to other funds	298	28	326
Due to pension trust funds	5	16	21
Due to other governments	20	28	48
Unearned revenue	-	8	8
Self insurance liabilities	90	220	310
Compensated absences	80	196	276
Advances from other funds	14,300	-	14,300
Total current liabilities	35,001	11,310	46,311
Non-current liabilities:			
Compensated absences	421	1,028	1,449
Self insurance	354	870	1,224
Total non-current liabilities	775	1,898	2,673
TOTAL LIABILITIES	35,776	13,208	48,984
NET ASSETS:			
Invested in capital assets, net of related debt	29,945	13,538	43,483
Restricted for:			
Correctional industries and procurement	771	29,577	30,348
TOTAL NET ASSETS	$ 30,716	$ 43,115	$ 73,831

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS-NONMAJOR PROPRIETARY FUNDS

Internal Service Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Purchasing	Manufacturing	Total
OPERATING REVENUES:			
Sales and services	$ 25,912	$ 33,744	$ 59,656
Other	-	27	27
OPERATING REVENUES BEFORE PROVISION FOR UNCOLLECTABLE ACCOUNTS	25,912	33,771	59,683
Provision for uncollectible accounts	(3,579)	-	(3,579)
NET OPERATING REVENUES	22,333	33,771	56,104
OPERATING EXPENSES:			
Cost of sales and services	39,751	31,835	71,586
Depreciation	5,276	1,218	6,494
TOTAL OPERATING EXPENSES	45,027	33,053	78,080
OPERATING INCOME/(LOSS)	(22,694)	718	(21,976)
NONOPERATING REVENUES (EXPENSES):			
Investment income	3,027	3,091	6,118
Other revenues	1	-	1
Other expenses	(925)	(598)	(1,523)
TOTAL NONOPERATING REVENUES (EXPENSES), NET	2,103	2,493	4,596
INCOME (LOSS) BEFORE TRANSFERS	(20,591)	3,211	(17,380)
TRANSFERS:			
Transfers out	-	(17,500)	(17,500)
CHANGE IN NET ASSETS	(20,591)	(14,289)	(34,880)
TOTAL NET ASSETS, JULY 1, 2006	51,307	57,404	108,711
TOTAL NET ASSETS, JUNE 30, 2007	$ 30,716	$ 43,115	$ 73,831

COMBINING STATEMENT OF CASH FLOWS-NONMAJOR PROPRIETARY FUNDS

Internal Service Funds *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Purchasing	Manufacturing	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers	$ 32,967	$ 33,160	$ 66,127
Payments for vendors, employees and other costs	(37,283)	(27,731)	(65,014)
Other receipts	-	27	27
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(4,316)	5,456	1,140
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Transfers out	-	(17,500)	(17,500)
NET CASH USED FOR NON-CAPITAL FINANCING ACTIVITIES	-	(17,500)	(17,500)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets	(9,520)	(2,761)	(12,281)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(9,520)	(2,761)	(12,281)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(259,785)	(21,287)	(281,072)
Sales and maturities of investments	271,396	35,060	306,456
Investment income	2,910	2,637	5,547
Change in securities lending obligations	(1,383)	(1,613)	(2,996)
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,138	14,797	27,935
NET DECREASE IN CASH	(698)	(8)	(706)
CASH AT JULY 1, 2006	4,511	491	5,002
CASH AT JUNE 30, 2007	$ 3,813	$ 483	$ 4,296
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	$ (22,694)	$ 718	$ (21,976)
Depreciation and amortization	5,276	1,218	6,494
Provision for uncollectible accounts	3,579	-	3,579
Non-operating revenue	1	-	1
Change in assets and liabilities:			
Accounts receivable	89	253	342
Inventory	143	(282)	(139)
Due from other funds	6,917	(727)	6,190
Due from other governments	-	209	209
Due from component units	(101)	2	(99)
Due from political subdivisions	6	44	50
Other current assets	-	(83)	(83)
Accounts payable and accrued liabilities	2,729	4,077	6,806
Due to other funds	(126)	15	(111)
Due to other governments	8	-	8
Other liabilities	(143)	12	(131)
Total Adjustments	18,378	4,738	23,116
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	$ (4,316)	$ 5,456	$ 1,140
Increase in fair value of investments during the fiscal year	$ 117	$ 454	$ 571

There were no material investing, capital or financing activities that did not result in cash receipts or cash payments during the fiscal year.

Pension (and Other Employee Benefit) Trust Funds

Oil Creek and Titusville Railroad

Venango County

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS DESCRIPTION

Pension (and other employee benefit trust) funds account for assets that are required to be held in trust for the members and beneficiaries of defined benefit pension plans and other postemployment benefit plan and are held by the Commonwealth in a trustee capacity.

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS

State Employees' Retirement System — is a component unit organization and accounts for the payment of retirement, disability and death benefits to members of the State Employees' Retirement System and their beneficiaries.

Deferred Compensation Fund — is a pension trust fund that collects and administers amounts contributed by Commonwealth employees who are deferring a portion of their income until future years, in accordance with Internal Revenue Code Section 457.

Public School Employees' Retirement System — is a component unit organization that administers and provides pension benefits to public school employees in Pennsylvania.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Pension (and Other Employee Benefit) Trust Funds *June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			
	State Employees' Retirement System (December 31, 2006)	Deferred Compensation (December 31, 2006)	Public School Employees' Retirement System	Total
ASSETS				
Cash	$ -	$ 1,899	$ -	$ 1,899
Temporary investments	-	8,413	-	8,413
Long-term investments	-	20,839	-	20,839
Short-term funds	670,717	33,508	4,164,010	4,868,235
Corporate obligations	1,290,576	102,967	3,783,287	5,176,830
Collective trust funds	3,535,532	-	5,767,684	9,303,216
Real estate	2,521,418	-	3,887,986	6,409,404
Alternative	4,227,663	-	5,839,066	10,066,729
Securities lending collateral	3,239,461	-	8,806,979	12,046,440
Asset-backed securities	332,130	13,709	-	345,839
Domestic equities	9,394,008	871,011	15,185,715	25,450,734
International equities	6,402,963	104,093	18,964,922	25,471,978
International private debt securities	-	-	672,500	672,500
International public debt securities	561,376	9,060	1,462,333	2,032,769
Mortgage-backed securities	550,471	48,612	6,190,646	6,789,729
Private placements	345,986	12,191	-	358,177
State and municipal obligations	-	234	-	234
U.S. Treasury obligations	1,898,745	119,447	2,488,201	4,506,393
U.S. government agency debt securities	201,960	346,544	120,183	668,687
Receivables, net:				
Accrued interest	86,140	-	-	86,140
Pension contributions	-	4,715	520,653	525,368
Investment sale proceeds	275,157	233	1,013,317	1,288,707
Other	2,926	95	230,845	233,866
Due from other funds	1,956	-	31	1,987
Due from pension trust funds	1,880	-	2,037	3,917
Due from component units	2,959	-	-	2,959
Due from political subdivisions	3,321	-	-	3,321
Due from other governments	-	-	23	23
Depreciable capital assets:				
Machinery and equipment	-	-	11,526	11,526
Less: accumulated depreciation	-	-	(10,656)	(10,656)
Net depreciable capital assets	-	-	870	870
TOTAL ASSETS	35,547,345	1,697,570	79,101,288	116,346,203
LIABILITIES				
Liabilities:				
Accounts payable and accrued liabilities	68,552	817	74,970	144,339
Investment purchases payable	186,232	-	2,462,341	2,648,573
Securities lending obligations	3,239,461	-	8,806,979	12,046,440
Due to other funds	-	-	852	852
Due to pension trust funds	270	103	4,616	4,989
Other liabilities	-	-	228,826	228,826
TOTAL LIABILITIES	3,494,515	920	11,578,584	15,074,019
NET ASSETS:				
Held in trust for:				
Pension and other employee benefits	32,052,830	-	67,340,997	99,393,827
Healthcare benefits	-	-	181,707	181,707
Employee salary deferrals	-	1,696,650	-	1,696,650
TOTAL NET ASSETS	$ 32,052,830	$ 1,696,650	$ 67,522,704	$ 101,272,184

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Pension (and Other Employee Benefit) Trust Funds

For the Fiscal Year Ended June 30, 2007

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trust			
	State Employees' Retirement System (December 31, 2006)	Deferred Compensation (December 31, 2006)	Public School Employees' Retirement System	Total
ADDITIONS:				
Pension contributions:				
Employer	$ 196,420	$ -	$ 774,097	$ 970,517
Employee	317,790	126,467	999,507	1,443,764
Transfer in from other plans	-	20,731	-	20,731
Total contributions	514,210	147,198	1,773,604	2,435,012
Investment income:				
Net appreciation in fair value of investments	4,364,878	140,804	10,457,561	14,963,243
Interest income	350,783	25,918	903,057	1,279,758
Dividend income	152,690	-	1,019,322	1,172,012
Rental and other income	149,390	-	610,614	760,004
Total investment activity income	5,017,741	166,722	12,990,554	18,175,017
Less: investment expenses				
Investment activity expense	(298,204)	(1,508)	(313,758)	(613,470)
Net investment earnings	4,719,537	165,214	12,676,796	17,561,547
Securities lending activities:				
Income	170,675	-	419,762	590,437
Expenses	(160,169)	-	(393,837)	(554,006)
Total securities lending income	10,506	-	25,925	36,431
Total net investment income	4,730,043	165,214	12,702,721	17,597,978
TOTAL ADDITIONS	5,244,253	312,412	14,476,325	20,032,990
DEDUCTIONS:				
Benefit payments	1,911,330	41,280	4,296,250	6,248,860
Refunds of contributions	8,096	-	18,180	26,276
Transfers to other plans	-	73,715	6,010	79,725
Administrative expenses	23,868	224	50,482	74,574
Other expenses	-	2,811	-	2,811
TOTAL DEDUCTIONS:	1,943,294	118,030	4,370,922	6,432,246
CHANGE IN PLAN NET ASSETS HELD IN TRUST FOR:				
Pension and other employee benefits	3,300,959	-	10,105,330	13,406,289
Healthcare benefits	-	-	73	73
Employee salary deferrals	-	194,382	-	194,382
Net assets, July 1, 2006	28,751,871	1,502,268	57,417,301	87,671,440
Net assets, June 30, 2007	$ 32,052,830	$ 1,696,650	$ 67,522,704	$ 101,272,184

Agency Funds

Autumn Scene

Potter County

AGENCY FUNDS
DESCRIPTION

Agency funds account for assets held by the Commonwealth as an agent for individuals, private organizations, or other governmental units.

AGENCY FUNDS

Statutory Liquidator Fund — to convert the remaining assets of insolvent insurance companies to cash for remittance to creditors, policyholders and stockholders in accordance with the order of distribution established in Article V of the Pennsylvania Insurance Department Act of 1921 and on a court approved percentage of claim basis. Although not yet determined, the actual amounts to be paid based on the amount of the remaining assets are expected to be less than the amounts actually claimed by creditors, policyholders and stockholders.

Medical Care Availability and Reduction of Error Fund — to collect surcharges from health care providers and remit payments for judgments, awards, or settlements in medical malpractice claims which exceed basic limits of coverage provided in professional liability insurance policies. Succeeded the Medical Professional Liability Catastrophe Loss Fund effective October 1, 2002.

Allegheny Regional Asset District Sales and Use Tax Fund — to collect an additional 1% sales tax remitted by Allegheny County business entities to the Department of Revenue, as established per Act 1993-77. On a monthly basis, the Treasury Department distributes the fund balance to qualified County entities in accordance with the requirements of the Act.

Underground Storage Tank Indemnification Fund — to collect assessments and remit claim payments to owners and operators of underground storage tanks who incur a liability for taking corrective action, for bodily injury or for property damage caused by a release from underground storage tanks.

Municipal Pension Aid Fund — to collect foreign (out-of-state) casualty insurance company tax assessments, which are remitted to municipalities to help defray municipal police and fire pension fund costs.

Fire Insurance Tax Fund — to collect a two-percent premium tax received from foreign (out-of-state) fire insurance companies conducting business in the Commonwealth, which are remitted to local governments. The municipalities must pay these monies to the relief, pension or retirement fund of their recognized fire fighting organization.

Agency Custodial Accounts — to account for the assets of patients, residents, inmates and other non-Commonwealth funds for which the Commonwealth is the account custodian.

Other — to collect and administer funds from various sources for distribution to other state and local governments or the Federal Government. This other category is an aggregation of five individual agency funds.

Pennsylvania Life and Health Insurance Guaranty Association and ***Pennsylvania Property and Casualty Insurance Guaranty Association*** — are component unit organizations which protect policy owners, insured persons/organizations and others from losses due to potential insurer failure due to the impairment or insolvency of member insurance carriers.

There are a total of fourteen individual agency funds.

COMBINING STATEMENT OF FIDUCIARY NET ASSETS
Agency Funds

June 30, 2007

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Statutory Liquidator	Medical Care Availability & Reduction of Error	Allegheny Regional Asset District Sales and Use Tax	Underground Storage Tank Indemnification	Municipal Pension Aid	Fire Insurance Tax	Agency Custodian Accounts	Other	PA Life and Health Insurance Guaranty Association (December 31, 2006)	PA Property and Casualty Insurance Guaranty Association (December 31, 2006)	Total Agency Funds
ASSETS											
Cash	$ -	$ 2	$ 129	$ 652	$ -	$ -	$ 13,636	$ 196	$ 12,398	$ 4,949	$ 31,962
Cash with fiscal agents	67,990	-	-	-	-	-	-	-	-	-	67,990
Temporary investments	110,418	152,148	14,488	63,225	217,855	86,095	13,395	33,038	257,870	88,709	1,037,241
Long-term investments	2,317,358	-	-	85,040	-	-	-	-	-	3,489	2,405,887
Receivables, net:											
Taxes	-	-	11,089	-	-	-	-	13,903	-	-	24,992
Accounts	208,171	1,379	-	-	-	-	3,428	-	-	247	213,225
Accrued interest	71	-	28	566	918	348	1	56	-	-	1,988
Loans	-	-	-	2,030	-	-	-	-	-	-	2,030
Investment sale proceeds	-	-	-	295	-	-	-	-	-	-	295
Other	-	-	-	-	-	-	-	-	-	183,964	183,964
Advances to other funds	-	-	-	76,500	-	-	-	-	-	-	76,500
Other assets	2,251,109	-	-	-	-	-	3,077	-	-	133	2,254,319
TOTAL ASSETS	$ 4,955,117	$ 153,529	$ 25,734	$ 228,308	$ 218,773	$ 86,443	$ 33,537	$ 47,193	$ 270,268	$ 281,491	$ 6,300,393
LIABILITIES											
Accounts payable and accrued liabilities	$ -	$ 3,379	$ 416	$ 23,105	$ -	$ -	$ 9,407	$ 139	$ -	$ -	$ 36,446
Investment purchases payable	-	-	-	587	-	-	-	-	-	-	587
Securities lending obligations	8,641	16,955	327	16,017	4,910	1,940	-	1,031	-	-	49,821
Due to political subdivisions	-	-	24,991	-	213,863	84,503	-	43,127	-	-	366,484
Due to other governments	-	10	-	3	-	-	-	-	-	-	13
Self insurance liabilities	-	296	-	49	-	-	-	-	-	-	345
Other liabilities	4,946,476	132,889	-	188,547	-	-	24,130	2,896	270,268	281,491	5,846,697
TOTAL LIABILITIES	$ 4,955,117	$ 153,529	$ 25,734	$ 228,308	$ 218,773	$ 86,443	$ 33,537	$ 47,193	$ 270,268	$ 281,491	$ 6,300,393

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
STATUTORY LIQUIDATOR FUND				
ASSETS				
Cash with fiscal agents	$ 63,869	$ 982,149	$ 978,028	$ 67,990
Temporary investments	174,781	54,994	119,357	110,418
Long-term investments	1,856,381	2,415,502	1,954,525	2,317,358
Receivables, net:				
Accounts	224,159	41,153	57,141	208,171
Accrued interest	358	71	358	71
Other assets	1,928,428	399,699	77,018	2,251,109
TOTAL ASSETS	$ 4,247,976	$ 3,893,568	$ 3,186,427	$ 4,955,117
LIABILITIES				
Accounts payable and accrued liabilities	$ 180	$ -	$ 180	$ -
Securities lending obligations	19,457	11,566	22,382	8,641
Other liabilities	4,228,339	3,882,002	3,163,865	4,946,476
TOTAL LIABILITIES	$ 4,247,976	$ 3,893,568	$ 3,186,427	$ 4,955,117
MEDICAL CARE AVAILABILITY AND REDUCTION OF ERROR FUND				
ASSETS				
Cash	$ -	$ 1,179,342	$ 1,179,340	$ 2
Temporary investments	173,083	650,887	671,822	152,148
Receivables, net:				
Accounts	5,367	1,384	5,372	1,379
TOTAL ASSETS	$ 178,450	$ 1,831,613	$ 1,856,534	$ 153,529
LIABILITIES				
Accounts payable and accrued liabilities	$ 2,373	$ 1,431,473	$ 1,430,467	$ 3,379
Securities lending obligations	19,817	22,695	25,557	16,955
Due to other funds	-	22	22	-
Due to political subdivisions	-	24	24	-
Due to other governments	9	16	15	10
Self insurance liabilities	244	296	244	296
Other liabilities	156,007	-	23,118	132,889
TOTAL LIABILITIES	$ 178,450	$ 1,454,526	$ 1,479,447	$ 153,529
ALLEGHENY REGIONAL ASSET DISTRICT SALES AND USE TAX FUND				
ASSETS				
Cash	$ 52	$ 1,533,329	$ 1,533,252	$ 129
Temporary investments	14,128	1,043,959	1,043,599	14,488
Receivables, net:				
Taxes	10,438	12,086	11,435	11,089
Accrued interest	25	27	24	28
TOTAL ASSETS	$ 24,643	$ 2,589,401	$ 2,588,310	$ 25,734
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ 416	$ -	$ 416
Securities lending obligations	883	437	993	327
Due to political subdivisions	23,760	11,703	10,472	24,991
TOTAL LIABILITIES	$ 24,643	$ 12,556	$ 11,465	$ 25,734
UNDERGROUND STORAGE TANK INDEMNIFICATION FUND				
ASSETS				
Cash	$ 596	$ 791,057	$ 791,001	$ 652
Temporary investments	55,742	238,603	231,120	63,225
Long-term investments	74,690	206,713	196,363	85,040
Receivables, net:				
Accrued interest	480	9,051	8,965	566
Loans	3,097	-	1,067	2,030
Investment sale proceeds	180	295	180	295
Advances to other funds	82,500	-	6,000	76,500
TOTAL ASSETS	$ 217,285	$ 1,245,719	$ 1,234,696	$ 228,308
LIABILITIES				
Accounts payable and accrued liabilities	$ 16,784	$ 250,003	$ 243,682	$ 23,105
Investment purchases payable	151	587	151	587
Securities lending obligations	6,786	21,440	12,209	16,017
Due to other funds	-	6	6	-
Due to political subdivisions	29	512	541	-
Due to other governments	2	3	2	3
Self insurance liabilities	41	49	41	49
Other liabilities	193,492	14,965	19,910	188,547
TOTAL LIABILITIES	$ 217,285	$ 287,565	$ 276,542	$ 228,308

(continued)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds (continued) *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
MUNICIPAL PENSION AID FUND				
ASSETS				
Cash	$ -	$ 1,395,550	$ 1,395,550	$ -
Temporary investments	215,498	315,115	312,758	217,855
Receivables, net:				
Accrued interest	802	918	802	918
TOTAL ASSETS	$ 216,300	$ 1,711,583	$ 1,709,110	$ 218,773
LIABILITIES				
Securities lending obligations	$ 13,467	$ 6,572	$ 15,129	$ 4,910
Due to political subdivisions	202,833	12,633	1,603	213,863
TOTAL LIABILITIES	$ 216,300	$ 19,205	$ 16,732	$ 218,773
FIRE INSURANCE TAX FUND				
ASSETS				
Cash	$ -	$ 591,231	$ 591,231	$ -
Temporary investments	87,827	93,781	95,513	86,095
Receivables, net:				
Accrued interest	-	348	-	348
TOTAL ASSETS	$ 87,827	$ 685,360	$ 686,744	$ 86,443
LIABILITIES				
Securities lending obligations	$ 5,489	$ 5,192	$ 8,741	$ 1,940
Due to political subdivisions	82,338	2,165	-	84,503
TOTAL LIABILITIES	$ 87,827	$ 7,357	$ 8,741	$ 86,443
AGENCY CUSTODIAL ACCOUNTS				
ASSETS				
Cash	$ 9,446	$ 8,258	$ 4,068	$ 13,636
Temporary investments	13,393	10,661	10,659	13,395
Receivables, net:				
Accounts	2,242	3,180	1,994	3,428
Accrued interest	-	1	-	1
Other assets	3,538	3,095	3,556	3,077
TOTAL ASSETS	$ 28,619	$ 25,195	$ 20,277	$ 33,537
LIABILITIES				
Accounts payable and accrued liabilities	$ 7,527	$ 8,780	$ 6,900	$ 9,407
Other liabilities	21,092	16,422	13,384	24,130
TOTAL LIABILITIES	$ 28,619	$ 25,202	$ 20,284	$ 33,537

(continued)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds (continued) *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
OTHER FUNDS				
ASSETS				
Cash	$ 142	$ 3,586,882	$ 3,586,828	$ 196
Temporary investments	34,527	1,118,261	1,119,750	33,038
Receivables, net:				
Taxes	14,244	14,047	14,388	13,903
Accrued interest	51	65	60	56
TOTAL ASSETS	$ 48,964	$ 4,719,255	$ 4,721,026	$ 47,193
LIABILITIES				
Accounts payable and accrued liabilities	$ 173	$ 70,907	$ 70,941	$ 139
Securities lending obligations	2,321	1,628	2,918	1,031
Due to other funds	-	353	353	-
Due to component units	-	1	1	-
Due to political subdivisions	43,702	46,026	46,601	43,127
Other liabilities	2,768	128	-	2,896
TOTAL LIABILITIES	$ 48,964	$ 119,043	$ 120,814	$ 47,193
PENNSYLVANIA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash	$ 4,562	$ 28,505	$ 20,669	$ 12,398
Temporary investments	244,817	231,765	218,712	257,870
TOTAL ASSETS	$ 249,379	$ 260,270	$ 239,381	$ 270,268
LIABILITIES				
Other liabilities	$ 249,379	$ 20,889	$ -	$ 270,268
TOTAL LIABILITIES	$ 249,379	$ 20,889	$ -	$ 270,268
PENNSYLVANIA PROPERTY AND CASUALTY INSURANCE GUARANTY ASSOCIATION				
ASSETS				
Cash	$ 1,911	$ 47,283	$ 44,245	$ 4,949
Temporary investments	116,183	19,742	47,216	88,709
Long-term investments	7,907	-	4,418	3,489
Receivables, net:				
Accounts	1,125	-	878	247
Other	177,371	45,796	39,203	183,964
Other assets	151	-	18	133
TOTAL ASSETS	$ 304,648	$ 112,821	$ 135,978	$ 281,491
LIABILITIES				
Other liabilities	$ 304,648	$ 24,040	$ 47,197	$ 281,491
TOTAL LIABILITIES	$ 304,648	$ 24,040	$ 47,197	$ 281,491

(continued)

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Agency Funds (continued) *For the Fiscal Year Ended June 30, 2007*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
TOTAL — AGENCY FUNDS				
ASSETS				
Cash	$ 16,709	$ 9,161,437	$ 9,146,184	$ 31,962
Cash with fiscal agents	63,869	982,149	978,028	67,990
Temporary investments	1,129,979	3,777,768	3,870,506	1,037,241
Long-term investments	1,938,978	2,622,215	2,155,306	2,405,887
Receivables, net:				
Taxes	24,682	26,133	25,823	24,992
Accounts	232,893	45,717	65,385	213,225
Accrued interest	1,716	10,481	10,209	1,988
Loans	3,097	-	1,067	2,030
Investment sale proceeds	180	295	180	295
Other	177,371	45,796	39,203	183,964
Advances to other funds	82,500	-	6,000	76,500
Other assets	1,932,117	402,794	80,592	2,254,319
TOTAL ASSETS	$ 5,604,091	$ 17,074,785	$ 16,378,483	$ 6,300,393
LIABILITIES				
Accounts payable and accrued liabilities	$ 27,037	$ 1,761,579	$ 1,752,170	$ 36,446
Investment purchases payable	151	587	151	587
Securities lending obligations	68,220	69,530	87,929	49,821
Due to other funds	-	381	381	-
Due to component units	-	1	1	-
Due to political subdivisions	352,662	73,063	59,241	366,484
Due to other governments	11	19	17	13
Self insurance liabilities	285	345	285	345
Other liabilities	5,155,725	3,958,446	3,267,474	5,846,697
TOTAL LIABILITIES	$ 5,604,091	$ 5,863,951	$ 5,167,649	$ 6,300,393

Nonmajor Discretely Presented Component Units

The Butterfly House at Hershey Gardens

Dauphin County

NONMAJOR DISCRETELY PRESENTED COMPONENT UNITS DESCRIPTION

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable, or other organizations for which the nature and significance of the relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading.

State Public School Building Authority (SPSBA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for school districts. These bonds are repaid solely from lease/loan payments from the schools.

Philadelphia Shipyard Development Corporation (PSDC) — assists the primary government (PG) and other governmental entities in financing a shipbuilding facility at the former Philadelphia Naval Shipyard. For the purposes of this report, the PSDC has a December 31, 2006 fiscal year end.

Ben Franklin Technology Development Authority (BFTDA) — promotes economic development through interaction of technology development, modernization and training programs. Industrial resource centers and technology centers, established through the PTDA, also increase Pennsylvania business competitiveness.

Insurance Fraud Prevention Authority (IFPA) — assists in the prevention, discovery, investigation and prosecution of insurance fraud. The IFPA is funded through assessments paid by the insurance industry and through certain criminal and civil fines, penalties and awards.

Pennsylvania Higher Educational Facilities Authority (PHEFA) — issues limited obligation revenue bonds, the proceeds of which are used to finance the construction of facilities for public/private colleges and universities. These bonds are repaid solely from lease/loan payments from the colleges and universities.

Patient Safety Trust Authority (PSTA) — takes steps to reduce and eliminate medical errors by identifying problems and recommending solutions that promote patient safety in hospitals, ambulatory surgical facilities and birthing centers.

Port of Pittsburgh Commission (PPC) — promotes economic development throughout waterways in southwestern Pennsylvania by constructing and/or financing transportation and recreation facilities.

Pennsylvania Industrial Development Authority (PIDA) — collaborates with local industrial development corporations to make loans that help preserve or expand the work force, assist targeted economic areas or assist specific companies.

Philadelphia Regional Port Authority (PRPA) — operates a port facility and manages port-related activities to promote commerce and economic development in southeastern Pennsylvania.

Commonwealth Financing Authority (CFA) — administers and funds economic stimulus programs.

Thaddeus Stevens College of Technology (College) — presents a financial burden to the PG, as the PG appropriates monies for College operations. The College was financially reported as part of the PG through and including the fiscal year ended June 30, 2003; legislation effective July 1, 2003 made the College a legally separate entity.

There are a total of twenty-two component units; sixteen are discretely presented. The State Employees' Retirement System (SERS) and Public School Employee's Retirement System (PSERS) are reported as Pension Trust Funds in the Statement of Fiduciary Net Assets, while the Pennsylvania Life and Health Insurance Guaranty Association (PLHIGA) and Pennsylvania Property and Casualty Insurance Guaranty Association (PPCIGA) are reported as Agency Funds. The ***Pennsylvania Turnpike Commission (PTC)***, ***Pennsylvania Housing Finance Agency (PHFA)***, ***Pennsylvania Higher Education Assistance Agency (PHEAA)***, ***Pennsylvania Infrastructure Investment Authority (PENNVEST)***, and ***State System of Higher Education (SSHE)*** are reported as major component units. The Pennsylvania Economic Development Financing Authority (PEDFA) and Pennsylvania Energy Development Authority (PEDA) are not reported because their only activities involve conduit debt.

COMBINING STATEMENT OF NET ASSETS
Nonmajor Discretely Presented Component Units

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2006)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
ASSETS					
Current assets:					
Cash	$ -	$ 5,079	$ -	$ 3,460	$ -
Temporary investments	18,495	-	33,222	-	-
Receivables:					
Accounts	8	-	-	-	8
Accrued interest	204	-	-	-	-
Loans	2,755	-	76	-	-
Lease rentals	-	-	-	-	-
Other	-	-	-	-	-
Due from primary government	-	-	-	-	-
Due from Federal government	-	-	-	-	-
Due from other governments	-	-	-	30	-
Inventory	-	-	-	-	-
Prepaid and deferred expenses	-	35	-	21	-
Other assets	-	-	-	4	-
Total current assets	21,462	5,114	33,298	3,515	8
Noncurrent assets:					
Long-term investments	8,505	-	-	-	-
Receivables (net):					
Loans	1,853	24,432	38,225	-	-
Lease rentals	-	-	-	-	-
Non-depreciable capital assets:					
Land	-	161	-	-	-
Construction in progress	-	-	-	-	-
Depreciable capital assets:					
Land improvements	-	-	-	-	-
Buildings and building improvements	-	-	-	-	-
Machinery and equipment	508	-	-	81	-
Library books	-	-	-	-	-
Other capital assets	-	-	-	-	-
Less: accumulated depreciation	(457)	-	-	(46)	-
Net depreciable capital assets	51	-	-	35	-
Other assets	-	-	-	-	-
Total noncurrent assets	10,409	24,593	38,225	35	-
TOTAL ASSETS	31,871	29,707	71,523	3,550	8
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	856	4	3,630	111	8
Securities lending obligations	-	-	3,702	-	-
Due to primary government	-	-	1	-	-
Interest payable	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Notes payable	-	-	-	-	-
Revenue bonds payable	-	-	-	-	-
Compensated absences	50	-	-	-	-
Other liabilities	64	-	-	-	-
Total current liabilities	970	4	7,333	111	8
Non-current liabilities:					
Notes payable	-	24,432	-	-	-
Revenue bond payable	-	-	-	-	-
Compensated absences	176	-	-	-	-
Other liabilities	606	-	-	-	-
Total non-current liabilities	782	24,432	-	-	-
TOTAL LIABILITIES	1,752	24,436	7,333	111	8
NET ASSETS:					
Invested in capital assets, net of related debt	51	161	-	35	-
Restricted for:					
Smoking cessation and other health-related programs	-	-	-	-	-
Capital projects	-	-	-	-	-
Debt service	-	-	-	-	-
Economic stimulus	-	5,110	64,190	-	-
Other purposes	30,068	-	-	3,404	-
Unrestricted	-	-	-	-	-
TOTAL NET ASSETS	$ 30,119	$ 5,271	$ 64,190	$ 3,439	$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
$ -	$ 4	$ 329	$ 1,011	$ 335,334	$ 1,698	$ 346,915
2,587	2,965	145,328	-	-	-	202,597
-	2	-	862	-	71	951
-	17	2,129	-	326	-	2,676
-	77	56,171	-	2,367	-	61,446
-	-	6,167	607	-	-	6,774
-	-	3,094	65	-	248	3,407
2,255	-	-	-	-	-	2,255
-	-	-	20	-	-	20
-	-	-	-	-	-	30
-	-	-	-	-	298	298
-	33	-	1,122	-	118	1,329
-	-	-	-	5,865	-	5,869
4,842	3,098	213,218	3,687	343,892	2,433	634,567
-	-	39,050	-	-	1,300	48,855
-	274	463,009	-	122,545	-	650,338
-	-	8,380	-	-	-	8,380
-	-	-	5,556	-	-	5,717
-	-	-	8,548	-	-	8,548
-	-	-	3,797	-	-	3,797
-	-	-	140,557	-	745	141,302
-	2,106	-	33,609	-	3,446	39,750
-	-	-	-	-	485	485
-	-	-	-	-	152	152
-	(654)	-	(98,433)	-	(2,736)	(102,326)
-	1,452	-	79,530	-	2,092	83,160
-	-	6,526	12,821	-	388	19,735
-	1,726	516,965	106,455	122,545	3,780	824,733
4,842	4,824	730,183	110,142	466,437	6,213	1,459,300
1,550	67	1,284	2,119	6	1,600	11,235
288	-	-	-	-	-	3,990
4	-	-	34	359	-	398
-	-	11,622	-	2,410	-	14,032
-	-	-	4,690	-	85	4,775
-	-	-	382	-	-	382
-	-	32,035	2,200	18,115	-	52,350
-	-	-	94	-	327	471
-	-	-	268	-	50	382
1,842	67	44,941	9,787	20,890	2,062	88,015
-	-	-	2,408	-	-	26,840
-	2,000	406,502	41,700	538,316	-	988,518
-	37	-	577	-	1,188	1,978
-	-	7,967	3,653	-	389	12,615
-	2,037	414,469	48,338	538,316	1,577	1,029,951
1,842	2,104	459,410	58,125	559,206	3,639	1,117,966
-	(548)	-	44,766	-	2,092	46,557
3,000	-	-	-	-	-	3,000
-	-	-	575	-	-	575
-	942	-	6,051	-	-	6,993
-	2,326	-	625	-	-	72,251
-	-	-	-	-	482	33,954
-	-	270,773	-	(92,769)	-	178,004
$ 3,000	$ 2,720	$ 270,773	$ 52,017	$ (92,769)	$ 2,574	$ 341,334

COMBINING STATEMENT OF ACTIVITIES
Nonmajor Discretely Presented Component Units

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	State Public School Building Authority	Philadelphia Shipyard Development Corporation (December 31, 2006)	Ben Franklin Technology Development Authority	Insurance Fraud Prevention Authority	Pennsylvania Higher Educational Facilities Authority
Expenses	$ 3,235	$ 2,375	$ 50,402	$ 9,410	$ 1,238
Program revenues:					
Charges for goods and services	1,415	-	530	10,558	1,238
Operating grants and contributions	1,331	1,688	52,724	492	-
Capital grants and contributions	-	-	-	-	-
Total program revenues	2,746	1,688	53,254	11,050	1,238
Net (expense) revenue	(489)	(687)	2,852	1,640	-
Change in net assets	(489)	(687)	2,852	1,640	-
Net assets, July 1, 2006 (restated)	30,608	5,958	61,338	1,799	-
Net assets, June 30, 2007	$ 30,119	$ 5,271	$ 64,190	$ 3,439	$ -

Patient Safety Trust Authority	Port of Pittsburgh Commission	Pennsylvania Industrial Development Authority	Philadelphia Regional Port Authority	Commonwealth Financing Authority	Thaddeus Stevens College of Technology	Total
$ 3,768	$ 960	$ 25,903	$ 26,411	$ 123,475	$ 16,744	$ 263,921
-	91	18,652	6,213	2,240	3,646	44,583
2,852	1,692	11,407	13,802	51,600	12,089	149,677
-	-	-	10,654	-	-	10,654
2,852	1,783	30,059	30,669	53,840	15,735	204,914
(916)	823	4,156	4,258	(69,635)	(1,009)	(59,007)
(916)	823	4,156	4,258	(69,635)	(1,009)	(59,007)
3,916	1,897	266,617	47,759	(23,134)	3,583	400,341
$ 3,000	$ 2,720	$ 270,773	$ 52,017	$ (92,769)	$ 2,574	$ 341,334

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Statistical Section

Painted Barn on Route 30

Bedford County

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FINANCIAL TRENDS
Net Assets by Component

TABLE 1
The Last Six Fiscal Years As of June 30

COMMONWEALTH OF PENNSYLVANIA
(Accrual basis of accounting-expressed in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007
GOVERNMENTAL ACTIVITIES						
Invested in capital assets, net of related debt	$ 14,806,435	$ 16,106,064	$ 16,944,913	$ 18,258,125	$ 19,068,573	$ 20,015,677
Restricted for:						
Smoking cessation and other health-related programs	N/A	N/A	N/A	1,215,291	1,320,703	1,454,502
Transportation	605,606	553,212	775,900	990,743	1,578,753	1,266,928
Capital projects	3,937	301,628	245,926	173,790	196,301	213,556
Debt service	-	32,685	61,029	83,885	8,118	20,474
Unemployment/worker's compensation	141,678	48,847	-	-	29,754	104,579
Elderly programs	1,434	111,659	90,713	92,531	32,327	10,808
Environmental and conservation programs	480,182	445,350	430,071	420,600	435,976	473,210
Economic stimulus	N/A	N/A	N/A	N/A	18,171	16,217
Gaming licensing/regulation	N/A	N/A	N/A	N/A	2,128	299,396
Correctional industries and procurement	N/A	N/A	N/A	N/A	133,934	30,348
Emergency support	N/A	N/A	N/A	N/A	56,543	60,917
Other purposes	384,027	1,003,117	1,366,072	303,409	82,770	87,077
Unrestricted (deficit)	1,312,334	(603,472)	(228,981)	(739,160)	(372,089)	343,162
TOTAL GOVERNMENTAL ACTIVITIES NET ASSETS	17,735,633	17,999,090	19,685,643	20,799,214	22,591,962	24,396,851
BUSINESS-TYPE ACTIVITIES						
Invested in capital assets, net of related debt	30,426	42,421	45,927	46,567	82,694	56,010
Restricted for:						
Smoking cessation and other health-related programs	N/A	N/A	N/A	-	4,814	2,413
Transportation	30,336	31,742	33,227	50,433	52,960	58,085
Unemployment/worker's compensation	2,836,069	1,960,499	1,506,877	1,808,170	2,397,720	2,547,726
Elderly programs	180,814	142,284	158,343	291,329	325,925	340,836
Economic stimulus	N/A	N/A	N/A	N/A	212,792	288,246
Emergency support	N/A	N/A	N/A	N/A	126,505	129,546
Other purposes	422,971	361,993	403,527	450,961	152,629	165,168
Unrestricted (deficit)	(26,005)	(71,756)	(47,849)	(43,812)	-	-
TOTAL BUSINESS-TYPE ACTIVITIES NET ASSETS	3,474,611	2,467,183	2,100,052	2,603,648	3,356,039	3,588,030
PRIMARY GOVERNMENT						
Invested in capital assets, net of related debt	14,836,861	16,148,485	16,990,840	18,304,692	19,151,267	20,071,687
Restricted for:						
Smoking cessation and other health-related programs	N/A	N/A	N/A	1,215,291	1,325,517	1,456,915
Transportation	635,942	584,954	809,127	1,041,176	1,631,713	1,325,013
Capital projects	3,937	301,628	245,926	173,790	196,301	213,556
Debt service	-	32,685	61,029	83,885	8,118	20,474
Unemployment/worker's compensation	2,977,747	2,009,346	1,506,877	1,808,170	2,427,474	2,652,305
Elderly programs	182,248	253,943	249,056	383,860	358,252	351,644
Environmental and conservation programs	480,182	445,350	430,071	420,600	435,976	473,210
Economic stimulus	N/A	N/A	N/A	N/A	230,963	304,463
Gaming licensing/regulation	N/A	N/A	N/A	N/A	2,128	299,396
Correctional industries and procurement	N/A	N/A	N/A	N/A	133,934	30,348
Emergency support	N/A	N/A	N/A	N/A	183,048	190,463
Other purposes	806,998	1,365,110	1,769,599	754,370	235,399	252,245
Unrestricted (deficit)	1,286,329	(675,228)	(276,830)	(782,972)	(372,089)	343,162
TOTAL PRIMARY GOVERNMENT NET ASSETS	$ 21,210,244	$ 20,466,273	$ 21,785,695	$ 23,402,862	$ 25,948,001	$ 27,984,881

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.
Note: This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34. Also, since implementation additional restricted net asset categories have been created to provide a more refined description of the restrictions. These restrictions were not applied retroactively and are marked with N/A in the years prior to the creation of the new restricted net asset category. These new categories were created either for new funds or funds previously reported in the "Other purposes" category. The "Gaming licensing/regulation" category was created for a new fund, the Gaming Fund, in the 2006 fiscal year. The most significant fund previously reported in the "Other purposes" category that is now being reported in a new classification is the Tobacco Settlement Fund, a major governmental fund type, which beginning with the 2005 fiscal year is now being reported in the "Smoking cessation and other health-related programs" category. Other notable funds being reported in new categories are the Internal Service funds-reported in the "Correctional industries and procurement" category; Machinery and Equipment Loan Fund and Small Business First Fund (both Proprietary fund types)-reported in the "Economic Stimulus" category; and the Volunteer Companies Loan Fund (a Proprietary fund type)-reported in the "Emergency support" category.

FINANCIAL TRENDS
Changes in Net Assets

TABLE 2
For the Last Six Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA
(Accrual basis of accounting-expressed in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007
GOVERNMENTAL ACTIVITIES:						
Expenses:						
Direction and supportive services	$ 1,262,359	$ 1,024,071	$ 2,034,883	$ 2,229,850	$ 2,162,552	$ 1,208,409
Protection of persons and property	3,758,867	3,921,413	3,873,972	4,244,332	4,439,794	4,487,633
Public education	9,642,272	10,219,211	10,571,307	11,428,452	11,816,608	12,464,663
Health and human services	18,893,434	20,454,323	21,750,153	24,166,791	24,139,762	24,264,933
Economic development	1,416,557	1,455,272	1,340,015	1,314,636	1,409,506	1,738,172
Transportation	2,581,898	2,998,824	3,164,086	3,261,642	3,229,351	3,922,517
Recreation and cultural enrichment	481,948	435,864	394,273	448,585	520,330	569,510
Interest	344,482	370,284	341,455	296,267	337,142	344,557
Total expenses	38,381,817	40,879,262	43,470,144	47,390,555	48,055,045	49,000,394
Program revenues:						
Charges for sales and services:						
Direction and supportive services	393,856	347,910	1,097,730	1,377,293	991,541	143,290
Protection of persons and property	373,329	627,529	925,502	831,785	1,080,708	1,309,256
Public education	6,043	-	3,514	1,702	13,161	14,793
Health and human services	2,095,669	2,049,640	1,297,338	2,871,487	1,913,377	1,730,965
Economic development	145,119	142,914	1,011	11,028	16,373	12,277
Transportation	956,406	914,129	1,008,886	1,029,406	949,533	952,866
Recreation and cultural enrichment	188,829	143,221	138,750	153,641	166,750	162,168
Operating grants and contributions	13,122,608	14,574,283	16,556,717	16,773,012	16,532,924	17,229,000
Capital grants and contributions	125,502	136,140	30,473	14,944	55,761	23,495
Total program revenues	17,407,361	18,935,766	21,059,921	23,064,298	21,720,128	21,578,110
Total governmental activities net program revenues/(expenses)	(20,974,456)	(21,943,496)	(22,410,223)	(24,326,257)	(26,334,917)	(27,422,284)
General revenues and other changes in net assets:						
General revenues:						
Taxes:						
Personal income	6,713,861	6,691,957	7,352,877	8,312,440	9,093,338	9,951,585
Sales and use	7,419,373	7,511,233	7,654,405	7,917,396	8,381,262	8,629,815
Corporation	3,160,714	3,418,599	4,004,112	4,400,995	5,074,730	4,985,031
Liquid fuels and motor carriers	1,696,418	1,666,795	1,723,816	1,863,223	2,033,227	2,072,442
Gaming	N/A	N/A	N/A	N/A	N/A	251,059
Inheritance	N/A	634,365	726,605	668,992	793,279	716,788
Cigarette	N/A	N/A	933,973	811,578	1,033,099	983,580
Real estate	N/A	N/A	N/A	N/A	646,870	583,991
Other	1,642,731	1,616,368	893,589	992,343	418,110	475,197
Total taxes	20,633,097	21,539,317	23,289,377	24,966,967	27,473,915	28,649,488
Investment income	15,394	115,829	199,151	131,629	188,750	320,342
Total general revenues	20,648,491	21,655,146	23,488,528	25,098,596	27,662,665	28,969,830
Special item-revenues from component unit	256,206	-	-	-	-	-
Transfers from business-type activities	481,022	551,807	422,786	341,232	465,000	257,343
Net general revenues, special items and transfers	21,385,719	22,206,953	23,911,314	25,439,828	28,127,665	29,227,173
Total governmental activities change in net assets	411,263	263,457	1,501,091	1,113,571	1,792,748	1,804,889

FINANCIAL TRENDS
Changes in Net Assets

TABLE 2
For the Last Six Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA
(Accrual basis of accounting-expressed in thousands)

	(Restated) 2002	2003	2004	2005	2006	2007
BUSINESS-TYPE ACTIVITIES						
Expenses						
State lottery	1,682,675	1,827,306	2,051,646	2,298,417	2,704,265	3,100,523
State workers' insurance	174,929	225,483	435,429	449,880	412,104	553,512
Tuition payment	191,188	288,118	293,737	192,802	138,275	267,941
Unemployment compensation	2,819,878	3,470,257	2,563,318	1,774,676	1,998,613	2,074,382
Liquor control	907,261	954,763	1,024,365	1,088,875	1,178,434	1,277,871
Economic development and other	16,820	12,663	13,980	16,456	18,433	14,470
Total expenses	5,792,751	6,778,590	6,382,475	5,821,106	6,450,124	7,288,699
Program revenues						
Charges for sales and services:						
State lottery	1,955,820	2,103,644	2,349,644	2,644,407	3,047,978	3,076,013
State workers' insurance	149,688	180,664	266,551	355,883	427,970	374,088
Tuition payment	151,149	234,460	206,739	141,817	113,831	151,121
Unemployment compensation	1,862,530	1,532,213	1,628,215	1,961,085	2,373,163	2,172,900
Liquor control	975,300	1,025,813	1,121,853	1,183,667	1,272,101	1,364,524
Economic development and other	24,031	15,878	21,467	17,201	17,585	20,068
Operating grants and contributions	463,554	1,223,591	840,763	361,874	414,887	619,319
Capital grants and contributions	-	6,706	1,121	-	-	-
Total program revenues	5,582,072	6,322,969	6,436,353	6,665,934	7,667,515	7,778,033
Total business-type activities net program revenues/(expenses)	(210,679)	(455,621)	53,878	844,828	1,217,391	489,334
Other changes in net assets						
Transfers to governmental activities	(481,022)	(551,807)	(422,786)	(341,232)	(465,000)	(257,343)
Total business-type activities change in net assets	(691,701)	(1,007,428)	(368,908)	503,596	752,391	231,991
Total primary government change in net assets	$ (280,438)	$ (743,971)	$ 1,132,183	$ 1,617,167	$ 2,545,139	$ 2,036,880

Source: Statement of Activities, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.
Note: This schedule presents information beginning with the 2002 fiscal year, when the Commonwealth implemented GASB Statement 34. With the original implementation, inheritance, cigarette and real estate taxes were reported within the "Other" taxes category. To provide a more refined description of the Commonwealth's taxes, separate captions were created in the Statement of Activities for these taxes in succeeding fiscal years. Beginning with the 2003 fiscal year, inheritance taxes were reported separately; in the 2004 fiscal year, cigarette taxes were reported separately; and in the 2006 fiscal year, real estate taxes were reported separately. These captions are marked with N/A in the fiscal years prior to when the particular tax was reported separate from the "Other" taxes category. During the 2007 fiscal year, the first licensed gaming facilities opened and the resulting taxes from their activities were reported in the Gaming Fund, a special revenue fund.

FINANCIAL TRENDS
Governmental Fund Type Fund Balances

TABLE 3
The Last Ten Fiscal Years As of June 30

COMMONWEALTH OF PENNSYLVANIA
(Modified accrual basis of accounting-expressed in thousands)

	1998	1999	2000	2001	(Restated) 2002 (1)	2003	2004	2005	2006	2007
GENERAL FUND										
Reserved for:										
Encumbrances	$ 224,929	$ 279,912	$ 397,827	$ 426,956	$ 479,314	$ 341,881	$ 259,178	$ 617,861	$ 709,115	$ 570,027
Advances	74,808	74,808	20,808	52,808	29,111	114,108	114,108	114,108	114,108	114,108
Loans receivable	-	-	-	-	-	9,470	6,283	4,496	10,953	11,113
Tax Stabilization/Budget Stabilization Reserve (2)	-	944,031	1,104,954	1,093,213	-	-	-	70,303	171,362	538,764
Other	17,502	329,014	362,027	308,125	286,711	307,974	501,901	621,004	454,639	844,229
Unreserved:										
Designated for:										
Budget Stabilization Reserve Fund	-	-	-	-	300,000	-	70,303	-	-	-
Other	1,144,001	180,490	677,897	1,079,047	323,884	269,775	421,415	514,174	719,414	923,966
Undesignated	497,641	1,055,165	1,700,128	1,524,846	1,603,822	1,314,505	1,633,326	927,163	789,958	368,659
TOTAL GENERAL FUND	1,958,881	2,863,420	4,263,641	4,484,995	3,022,842	2,357,713	3,006,514	2,869,109	2,969,549	3,370,866
ALL OTHER GOVERNMENTAL FUNDS										
Reserved for:										
Encumbrances	1,041,392	916,662	1,233,014	1,220,710	1,336,227	1,168,535	1,444,875	1,454,129	1,630,382	1,927,151
Advances	3,000	3,000	3,000	3,000	3,000	3,000	223,000	210,000	3,000	3,000
Loans receivable	70,803	60,483	68,834	56,264	39,963	38,186	39,804	32,065	32,684	39,859
Other	16,976	31,754	38,020	38,050	407,029	445,411	560,284	817,668	857,253	1,329,707
Unreserved:										
Designated for:										
Capital projects	86,981	81,817	86,644	79,867	79,286	54,026	96,787	133,024	131,026	65,455
Debt service:										
Retirement of general obligation bonds	195,691	396,847	409,762	152,085	21,887	32,685	61,029	83,885	8,118	20,474
Highways	223,234	213,622	250,743	182,670	175,249	215,946	209,647	218,885	203,118	235,730
Other	33,552	275	264	264	12	-	-	4,355	4,528	11,268
Unreserved: Undesignated, reported in:										
Special Revenue funds	891,798	983,723	992,985	970,427	1,791,400	1,703,534	1,520,236	1,631,980	2,412,047	1,971,829
Debt Service funds (deficit)	(40)	-	(53)	(8)	(3,782)	-	-	-	-	-
Capital Projects funds (deficit)	(730,438)	(399,809)	(710,378)	(668,091)	(494,795)	(398,644)	(368,295)	(473,110)	(601,823)	(449,622)
TOTAL ALL OTHER GOVERNMENTAL FUNDS	$ 1,832,949	$ 2,288,374	$ 2,372,835	$ 2,035,238	$ 3,355,476	$ 3,262,679	$ 3,787,367	$ 4,112,881	$ 4,680,333	$ 5,154,851

Source: The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For fiscal years 1998-2001, the information can be found in the Combined Balance Sheet-All Fund Types, Account Groups and Discretely Presented Component Units statement. Beginning with the 2002 fiscal year, the information can be found in the Balance Sheet-Governmental Funds statement.

Notes:

(1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.

(2)-The Tax Stabilization Fund was abolished and its last year of existence was the 2001 fiscal year. In the 2002 fiscal year, the new Budget Stabilization Reserve Fund was created by Act 91 of 2002. The reservations for both funds are reported on the same line because they are considered to be the Commonwealth's Rainy Day Fund within the General Fund. Note A in the Notes to the Financial Statements provides additional details.

FINANCIAL TRENDS

TABLE 4

Revenues by Source and Expenditures by Function-All Governmental Fund Types

For the Last Ten Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA

(Modified accrual basis of accounting-expressed in thousands)

	1998	1999	2000	2001	(Restated) 2002 (1)	2003	2004	2005	2006	2007
REVENUES BY SOURCE										
Taxes	$ 19,043,735	$ 20,105,276	$ 20,956,743	$ 21,232,196	$ 20,636,762	$ 21,469,170	$ 23,237,117	$ 24,973,125	$ 27,117,823	$ 28,548,280
Licenses and fees	1,004,050	1,019,256	1,143,789	1,172,372	1,246,232	1,350,016	1,475,948	1,568,659	1,611,868	1,954,788
Intergovernmental	9,669,407	10,563,455	11,093,738	12,086,372	13,259,463	14,575,716	16,379,096	16,585,336	16,347,975	16,891,212
Charges for sales and services	1,697,933	2,057,375	2,489,196	2,388,536	2,535,775	2,019,842	2,068,019	4,027,745	2,970,585	1,598,564
Investment income	225,805	258,525	396,499	307,202	29,615	249,791	402,132	322,199	425,356	769,820
Lottery receipts (2)	1,684,015	1,659,305	1,695,371	1,788,333	N/A	N/A	N/A	N/A	N/A	N/A
Other (3)	178,042	214,254	656,086	539,830	755,226	837,918	957,494	552,422	576,180	607,201
TOTAL REVENUES	33,502,987	35,877,446	38,431,422	39,514,841	38,463,073	40,502,453	44,519,806	48,029,486	49,049,787	50,369,865
EXPENDITURES BY FUNCTION										
Direction and supportive services	2,586,529	2,722,917	2,817,426	3,292,188	968,563	914,794	1,538,729	2,134,421	2,337,112	1,104,793
Protection of persons and property	2,613,021	2,785,269	2,933,612	3,044,074	3,876,449	3,882,843	3,886,666	3,892,572	4,410,969	4,621,119
Health and human services	14,341,539	15,320,410	16,486,542	17,483,315	18,990,802	20,510,849	21,689,392	24,118,288	24,103,077	24,293,011
Public education	7,714,443	7,842,732	8,283,144	8,677,284	8,814,273	10,198,076	10,529,504	11,400,985	11,731,884	12,439,920
Recreation and cultural enrichment	396,087	436,601	510,732	568,757	480,245	471,920	382,179	442,783	447,264	544,117
Economic development	338,984	469,005	539,068	745,143	1,245,292	1,507,584	1,334,071	1,310,093	1,413,995	1,736,388
Transportation	3,243,334	3,654,269	3,679,188	4,065,124	4,003,291	3,935,785	2,310,434	2,607,793	2,448,165	3,089,544
Capital outlay	360,238	582,863	586,801	655,248	694,219	407,080	2,008,141	1,805,913	2,082,644	2,121,632
Debt service:										
Principal retirement	435,090	443,675	479,350	477,001	479,395	998,396	455,890	478,112	492,355	521,773
Interest and fiscal charges	263,356	262,669	277,044	281,590	278,428	313,681	311,686	320,887	348,418	361,088
TOTAL EXPENDITURES	32,292,621	34,520,410	36,592,907	39,289,724	39,830,957	43,141,008	44,446,692	48,511,847	49,815,883	50,833,385
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,210,366	1,357,036	1,838,515	225,117	(1,367,884)	(2,638,555)	73,114	(482,361)	(766,096)	(463,520)
OTHER FINANCING SOURCES/(USES)										
Bonds issued	415,135	856,839	590,731	663,919	1,042,813	1,324,167	625,247	401,816	914,000	1,008,104
Refunding bonds issued	-	-	-	-	376,854	837,991	459,223	1,468,439	-	250,557
Premium on bonds/refunding bonds issued	-	-	-	-	-	-	88,006	197,291	54,420	58,166
Discount on bonds issued	-	-	-	-	-	-	-	-	-	(157)
Transfers in	1,179,051	1,344,985	1,372,501	1,097,698	2,272,414	1,729,539	1,337,090	1,276,443	1,408,351	1,463,620
Transfers out	(1,126,251)	(1,292,832)	(1,320,181)	(1,056,533)	(1,791,392)	(1,177,733)	(914,304)	(1,035,211)	(943,351)	(1,188,779)
Transfers from component units (4)	-	-	-	-	256,206	N/A	N/A	N/A	N/A	N/A
Transfers to component units (4)	(760,758)	(781,636)	(833,976)	(877,609)	(1,079,197)	N/A	N/A	N/A	N/A	N/A
Payment to refunded bond escrow agent	-	-	-	-	(376,854)	(837,991)	(511,884)	(1,639,510)	-	(253,892)
Capital lease and installment purchase obligations	5,250	28,835	14,556	6,607	5,767	4,656	1,535	1,202	568	1,736
TOTAL OTHER FINANCING SOURCES/(USES)	(287,573)	156,191	(176,369)	(165,918)	706,611	1,880,629	1,084,913	670,470	1,433,988	1,339,355
NET CHANGE IN FUND BALANCES	$ 922,793	$ 1,513,227	$ 1,662,146	$ 59,199	$ (661,273)	$ (757,926)	$ 1,158,027	$ 188,109	$ 667,892	$ 875,835
Debt Service as a Percentage of Noncapital Expenditures (5).	2.19%	2.08%	2.10%	1.96%	1.94%	3.07%	1.81%	1.71%	1.76%	1.81%

Source: The Commonwealth's Comprehensive Annual Financial Report, as presented for the applicable fiscal year. For fiscal years 1998-2001, the information can be found in the Combined Statement of Revenues, Expenditures and Changes in Fund Balance statement. Beginning with the 2002 fiscal year, the information can be found in the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds statement.

Notes:

(1)-Beginning with the 2002 fiscal year, the Commonwealth implemented GASB Statement 34. As a result, two funds (State Lottery Fund and Historical Preservation Fund) were reclassified from the Special Revenue governmental fund type classification to a Proprietary fund type classification. Two additional funds (Workmen's Compensation Security Trust Fund and Catastrophic Loss Trust Fund) were reclassified from an Expendable Trust fund type classification to a Special Revenue governmental fund type classification.

(2)-The change in the State Lottery fund type classification was not retroactively applied, thus the lottery receipts are reported in the Governmental Fund Types through the 2001 fiscal year. Subsequent years after the reclassification are marked with an N/A.

(3)-Other revenues include immaterial amounts of lease rentals revenues and interest on notes and loans.

(4)-With the implementation of GASB Statement 34, the Commonwealth was required to begin reporting transfers from and to component units as ordinary revenues and expenditures. These changes were made to the Commonwealth's accounting system beginning with the 2003 fiscal year and were not retroactively applied. Subsequent fiscal years are marked with a N/A.

(5)-Ratio is calculated as Principal Retirement plus Interest and Fiscal Charges divided by Total Expenditures less Capital Outlay. There are no expenditures for capitalized assets contained within the functional expenditure categories.

REVENUE CAPACITY-PERSONAL INCOME TAX

Personal Income by Industry

TABLE 5

For the Last Ten Calendar Years

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Millions)

	1997	1998	1999	2000	2001	2002	2003(1)	2004(1)	2005(1)	2006
TOTAL PERSONAL INCOME BY INDUSTRY (2)										
Workplace Earnings:										
Farm Earnings	$ 786	$ 921	$ 881	$ 1,148	$ 943	$ 675	$ 1,103	$ 1,304	$ 1,115	$ 947
Nonfarm Earnings:										
Private earnings:										
Forestry, fishing/hunting, agriculture	359	416	445	509	553	466	450	422	448	463
Mining	1,552	1,475	1,463	1,406	1,703	1,517	1,657	1,936	2,105	2,421
Utilities	2,730	2,821	2,912	3,153	3,311	3,593	3,490	3,625	3,586	3,422
Construction	12,358	13,188	15,007	15,258	16,019	16,406	17,208	18,254	19,967	21,141
Manufacturing	41,486	43,083	44,471	47,143	45,299	45,458	44,253	45,448	46,438	47,948
Wholesale trade	10,602	11,557	12,128	12,936	13,273	13,680	14,497	15,695	16,703	17,708
Retail trade	16,067	17,014	17,874	18,213	19,174	19,391	20,067	20,186	20,686	21,025
Transportation and warehousing	8,025	8,706	9,265	9,874	10,485	10,606	10,688	11,743	11,991	12,541
Broadcasting/publishing/internet technology	6,619	7,362	8,125	8,798	9,007	8,511	8,925	9,092	9,419	9,833
Finance and insurance	14,655	16,063	17,144	18,678	18,792	19,708	20,518	22,493	23,343	24,913
Real estate and rental and leasing	3,613	5,313	4,869	5,872	5,504	5,652	6,222	6,543	6,712	6,559
Professional and technical services	18,530	21,172	23,602	25,184	25,716	25,726	26,226	28,439	30,819	33,182
Management of companies and enterprises	4,875	4,168	4,540	4,205	4,726	5,144	6,629	7,854	9,047	9,926
Administrative services	7,079	7,601	8,080	8,498	8,514	8,864	8,788	9,521	9,995	10,408
Educational services	5,289	5,622	5,897	6,342	6,837	7,332	7,721	8,141	8,541	8,962
Health care and social assistance	26,774	27,991	29,109	30,410	31,467	33,702	35,461	38,357	39,896	42,450
Arts, entertainment, and recreation	1,828	1,987	2,130	2,359	2,330	2,473	2,663	2,745	2,837	3,021
Accommodation and food services	5,086	5,310	5,576	5,873	6,129	6,470	6,693	6,999	7,243	7,564
Other services, except public administration	7,112	7,580	7,846	8,285	8,242	8,889	9,160	9,489	9,942	10,289
Total private earnings	194,639	208,429	220,483	232,996	237,081	243,588	251,316	266,982	279,718	293,776
Government:										
Federal, civilian	6,794	6,842	7,005	7,460	7,633	7,971	8,196	8,807	9,175	9,564
Military	842	830	863	882	992	1,198	1,623	1,697	1,823	1,776
State government	6,494	6,659	6,833	7,089	7,422	7,900	8,430	8,556	8,764	9,097
Local government	17,016	18,156	17,928	18,593	19,327	20,429	21,464	22,648	23,409	24,200
Total government earnings	31,146	32,487	32,629	34,024	35,374	37,498	39,713	41,708	43,171	44,637
Total nonfarm earnings	225,785	240,916	253,112	267,020	272,455	281,086	291,029	308,690	322,889	338,413
Total workplace earnings	226,571	241,837	253,993	268,168	273,398	281,761	292,132	309,994	324,004	339,360
Other earnings/deductions (3)	84,936	88,324	88,619	96,669	98,941	100,491	101,776	103,907	107,832	117,069
Total personal income	$ 311,507	$ 330,161	$ 342,612	$ 364,837	$ 372,339	$ 382,252	$ 393,908	$ 413,901	$ 431,836	$ 456,429
Total personal income subject to the direct personal income tax rate (4)(5)	$ 202,024	$ 215,027	$ 224,591	$ 237,070	$ 230,926	$ 229,685	$ 237,961	250,921	N/A	N/A
Direct personal income tax rate	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.07%	3.07%	3.07%

Sources:
Personal income by industry are provided by the U.S. Department of Commerce, Bureau of Economic Analysis through estimates released September 2007 (http://www.bea.gov/bea/regional/spi/default.cfm).
Total personal income subject to the direct tax rate and the direct personal income tax rate are provided by the Pennsylvania Department of Revenue.

Notes:
(1)-Calendar years 2003-2005 differ from the totals shown in the Commonwealth's Comprehensive Annual Financial Report for June 30, 2006. The amounts shown in the prior year were based on estimates released by the U.S. Department of Commerce, Bureau of Economic Analysis in September 2006. These estimates have subsequently been revised (as provided in March and September 2007 releases).
(2)-Personal income by industry are reported under the North American Industry Classification System (N.A.I.C.S. Group).
(3)-Other earnings/deductions include dividends, interest and miscellaneous employee/employer contributions/deductions.
(4)-Total personal income subject to the direct personal income tax rate consists of taxable compensation, interest, dividends, net profits and other income, prior to the application of various tax credits. This amount is self-assessed by the taxpayer on their tax returns for the tax year. Due to the complexity and length of the tax return filing and review process, the total compilation is not yet available for release by the Pennsylvania Department of Revenue for the 2005 and 2006 tax years.
(5)-This information is presented by tax year, rather than by calendar year, as the personal income by industry is presented. An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (i.e. March 31st). The information presented is based on those returns of the filers whose tax year ended during the the applicable calendar year.

COMMONWEALTH OF PENNSYLVANIA
(Liability Expressed in Thousands)

1995 Tax Year (1)(2)(3)					2004 Tax Year (1)(2)(3)				
Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total	Taxable Income Level	Number of Filers	Percentage of Total (5)	Personal Income Tax Liability(4)	Percentage of Total
$0	65,009	1.17%	$ -	0.00%	$0	85,100	1.50%	$ -	0.00%
$1-999	452,355	8.14%	5,551	0.11%	$1-999	410,015	7.24%	4,937	0.06%
$1,000-2,999	535,496	9.64%	28,950	0.59%	$1,000-2,999	418,962	7.40%	24,928	0.32%
$3,000-4,999	388,002	6.99%	43,012	0.87%	$3,000-4,999	314,283	5.55%	38,193	0.50%
$5,000-6,999	308,751	5.56%	51,486	1.04%	$5,000-6,999	252,227	4.45%	46,180	0.60%
$7,000-8,999	235,223	4.23%	52,503	1.06%	$7,000-8,999	210,303	3.71%	51,448	0.67%
$9,000-10,999	199,681	3.59%	55,748	1.13%	$9,000-10,999	181,442	3.20%	55,616	0.72%
$11,000-12,999	183,061	3.30%	61,440	1.25%	$11,000-12,999	167,445	2.96%	61,609	0.80%
$13,000-14,999	172,156	3.10%	67,442	1.37%	$13,000-14,999	155,060	2.74%	66,590	0.86%
$15,000-16,999	165,538	2.98%	74,104	1.50%	$15,000-16,999	149,055	2.63%	73,176	0.95%
$17,000-18,999	158,733	2.86%	79,979	1.62%	$17,000-18,999	143,605	2.54%	79,333	1.03%
$19,000-21,999	224,658	4.04%	128,829	2.61%	$19,000-21,999	209,511	3.70%	131,812	1.71%
$22,000-24,999	206,996	3.73%	136,088	2.76%	$22,000-24,999	199,842	3.53%	144,110	1.87%
$25,000-29,999	309,669	5.58%	237,850	4.82%	$25,000-29,999	307,911	5.44%	259,440	3.37%
$30,000-34,999	272,906	4.91%	247,936	5.03%	$30,000-34,999	270,966	4.79%	269,875	3.50%
$35,000-39,999	244,298	4.40%	256,141	5.19%	$35,000-39,999	236,982	4.19%	272,407	3.54%
$40,000-49,999	404,071	7.27%	506,620	10.27%	$40,000-49,999	396,348	7.00%	545,093	7.08%
$50,000-74,999	583,373	10.50%	989,941	20.07%	$50,000-74,999	682,958	12.06%	1,286,790	16.70%
$75,000-99,999	220,399	3.97%	527,610	10.70%	$75,000-99,999	374,536	6.61%	990,164	12.85%
$100,000-149,999	129,871	2.34%	432,386	8.77%	$100,000-149,999	289,397	5.11%	1,064,139	13.81%
$150,000 or more	94,165	1.70%	948,153	19.23%	$150,000 or more	206,506	3.65%	2,237,435	29.05%
Total (5)	5,554,411	100.00%	$ 4,931,769	100.00%	Total	5,662,454	100.00%	$ 7,703,275	100.00%

Sources:
The number of filers per taxable income level, the personal income subject to the direct personal income tax rate per income level (used in the Personal Income Tax Liability estimation) and the direct personal income tax rate are provided by the Pennsylvania Department of Revenue.

Notes:
(1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest personal income tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's personal income tax revenue.
(2)-An individual filer's tax year is defined as that period for which that person must file a tax return. Generally, many filers have the last day of their filing year fall on December 31st; however, for various reasons, other filers have a filing year that falls on a different date (i.e. March 31st). This table presents information based on all filers whose tax year ended during the the 1995 or 2004 calendar years.
(3)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of personal income subject to the direct tax rate per income level was not yet available for release by the Pennsylvania Department of Revenue for the 2005 and 2006 tax years. This compilation is used in the calculation of the estimated personal income tax liability. Therefore, the 1995 and 2004 tax years are presented as an alternative comparison.
(4)-The estimated total personal income tax liability is calculated by multiplying the total personal income (as self-assessed by the individual tax filer) for the income level by the tax rate applicable during the tax year. The estimated liability is presented before any applicable tax credits were applied. For the 1995 tax year, the direct tax rate in effect was 2.80% for all income levels, while the rate increased to 3.07% for the 2004 tax year.
(5)-Totals may not foot due to rounding.

COMMONWEALTH OF PENNSYLVANIA
(Expressed in Thousands)

	By S.I.C. Group (2)			By N.A.I.C.S. Group (2)						
	1997	**1998**	**1999**	**2000**	**2001**	**2002 (3)**	**2003 (3)**	**2004 (3)**	**2005 (3)**	**2006 (3)(4)**
Estimated Taxable Sales by Industry (1)										
Manufacturing	$ 5,842,000	$ 6,060,783	$ 6,698,400	$ 6,812,867	$ 6,241,417	$ 5,712,633	$ 6,222,633	$ 6,386,100	$ 6,858,033	$ 7,107,483
Public utilities	8,321,367	8,521,333	9,287,767	9,736,283	3,991,083	3,920,667	3,981,383	4,229,717	4,473,817	4,667,117
Wholesale trade	3,723,517	3,743,100	3,868,450	4,037,633	10,142,600	9,687,583	7,625,950	7,987,583	9,112,350	11,407,750
Building materials	6,320,167	5,948,183	6,298,083	6,741,133	6,654,533	6,969,217	7,216,967	8,209,967	8,719,850	9,607,267
General merchandise	7,482,583	7,472,933	7,961,050	8,262,033	9,039,983	16,724,483	17,595,700	18,383,833	18,243,083	18,766,300
Food and beverage stores	11,899,567	12,059,150	12,950,617	13,337,550	12,875,267	5,353,500	5,602,267	5,770,967	5,764,533	5,859,017
Automotive dealers	2,765,667	2,860,067	3,211,517	3,418,567	4,994,600	3,163,400	3,329,383	3,487,217	3,691,150	3,761,500
Furniture and appliances	3,605,550	3,568,050	3,864,200	4,021,383	2,544,383	5,231,483	5,553,117	5,844,450	6,338,250	6,148,383
Other retail stores	13,676,000	13,919,900	14,950,433	15,571,467	13,929,117	5,054,200	5,022,117	5,212,517	5,376,183	5,529,683
Agriculture and mining	15,983,300	16,223,233	17,909,917	18,881,667	22,357,250	509,467	484,717	559,400	644,983	717,950
Construction	N/A	N/A	N/A	N/A	N/A	2,076,850	2,171,750	2,342,833	2,742,150	3,010,383
Service	N/A	N/A	N/A	N/A	N/A	34,221,217	35,405,917	35,164,650	37,378,583	39,336,950
Transportation, delivery, and warehousing	N/A	N/A	N/A	N/A	N/A	272,833	275,150	312,250	330,783	420,617
Other	2,685,600	2,802,067	3,109,783	3,160,300	6,484,767	N/A	N/A	N/A	N/A	N/A
Government	88,617	69,567	105,850	105,650	298,483	264,517	280,250	278,833	296,717	294,600
Unclassified	3,676,583	3,542,817	3,448,283	4,481,200	1,457,483	1,911,367	2,538,850	2,228,010	1,472,017	1,442,950
Motor vehicle	13,688,767	14,861,183	15,490,150	17,495,383	18,000,200	19,362,581	20,764,773	21,144,925	20,506,470	19,484,594
Liquor sales	848,633	883,900	941,283	1,005,367	1,051,300	1,105,526	1,254,926	1,265,798	1,383,587	1,341,449
Total sales tax estimated base (5)	$ 100,607,917	$ 102,536,267	$ 110,095,783	$ 117,068,483	$ 120,062,467	$ 121,541,524	$ 125,325,849	$ 128,809,049	$ 133,332,540	$ 138,903,993
Total direct sales tax rate	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%

Sources:
Sales tax remittances by industry and total direct sales tax rate (both used in the calculation of estimated taxable sales by industry) are provided by the Pennsylvania Department of Revenue.

Notes:
(1)-Estimated taxable sales are calculated based on sales tax remittances (made by vendors with their tax returns processed during the fiscal year) divided by the direct sales tax rate of 6%.
(2)-Estimated taxable sales are organized by major industrial activity of the vendor and do not represent sales by product type. Fiscal years 1997 through 1999 are presented by Standard Industrial Classification (S.I.C. Group). Beginning with the 2000 fiscal year, the Commonwealth began reporting under the North American Industry Classification System (N.A.I.C.S. Group). The two classifications are similar, but not 100% comparable.
(3)-Beginning with the 2006 fiscal year, the Pennsylvania Department of Revenue reclassed various subcategories within major industrial activity into either a different major industrial activity or a new major industrial activity. New major industrial activity are "Construction", "Service", and "Transportation, delivery, and warehousing". The "Other" category was eliminated. This reclassification had the most effect on the "General merchandise", "Food and beverage stores", "Other retail stores", and "Agriculture and mining" major industrial activity categories. These reclassifications were applied retroactively back to the 2002 fiscal year.
(4)-Due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2007 fiscal year. Therefore, fiscal years 1997 through 2006 are presented as an alternative comparison.
(5)-Totals may not foot due to rounding.

REVENUE CAPACITY-SALES TAX

TABLE 8

Sales Tax Remittances by Major Industry Classification

Fiscal Years Ended June 30, 1997 and June 30, 2006

COMMONWEALTH OF PENNSYLVANIA

($ Expressed in Thousands)

June 30, 1997 (1)(2)			June 30, 2006 (1)(2)		
Industry (S.I.C. Group)(4)	**Sales(3) Tax Liability**	**Percentage of Total**	**Industry (N.A.I.C.S. Group)(4)**	**Sales(3) Tax Liability**	**Percentage of Total**
Manufacturing	$ 350,520	5.81%	Manufacturing	$ 426,449	5.12%
Public utilities	499,282	8.27%	Public utilities	280,027	3.36%
Wholesale trade	223,411	3.70%	Wholesale trade	684,465	8.21%
Building materials	379,210	6.28%	Building materials	576,436	6.92%
General merchandise	448,955	7.44%	General merchandise	1,125,978	13.51%
Food and beverage stores	713,974	11.83%	Food and beverage stores	351,541	4.22%
Automotive dealers	165,940	2.75%	Automotive dealers	225,690	2.71%
Furniture and appliances	216,333	3.58%	Furniture and appliances	368,903	4.43%
Other retail stores	820,560	13.59%	Other retail stores	331,781	3.98%
Agriculture and mining	958,998	15.89%	Agriculture and mining	43,077	0.52%
Construction	N/A	N/A	Construction	180,623	2.17%
Service	N/A	N/A	Service	2,360,217	28.32%
Transportation, delivery, and warehousing	N/A	N/A	Transportation, delivery, and warehousing	25,237	0.30%
Other	161,136	2.67%	Other	N/A	N/A
Government	5,317	0.09%	Government	17,676	0.21%
Unclassified	220,595	3.65%	Unclassified	86,577	1.04%
Motor vehicle	821,326	13.61%	Motor vehicle	1,169,076	14.03%
Liquor sales	50,918	0.84%	Liquor sales	80,487	0.97%
Total (6)	$ 6,036,475	100.00%	Total (6)	$ 8,334,240	100.00%
Sales Tax Licenses (7)	300,257		Sales Tax Licenses (7)	237,971	

Sources:

Sales tax remittances by industry and the number of sales tax licenses are provided by the Pennsylvania Department of Revenue.

Notes:

(1)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest sales tax filers. Therefore, this schedule is presented as an alternative comparison regarding the sources of the Commonwealth's sales tax revenue.

(2)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of sales tax remittances was not yet available for release by the Pennsylvania Department of Revenue for the 2007 fiscal year. Therefore, fiscal years 1997 and 2006 are presented as an alternative comparison.

(3)-Sales tax liability is based on sales tax remittances made with tax returns processed during the fiscal year. The direct sales tax rate applicable to both years is 6%.

(4)-Sales tax remittances are organized by major industrial activity of the vendor and does not represent sales by product type. The 1997 fiscal year is presented using the Standard Industrial Classification (S.I.C. Group), and the 2006 fiscal year is presented using the North American Industry Classification System (N.A.I.C.S. Group). The two classifications are similar, but not 100% comparable.

(5)-Beginning with the 2006 fiscal year, the Pennsylvania Department of Revenue reclassed various subcategories within major industrial activity into either a different major industrial activity or a new major industrial activity. New major industrial activity are "Construction", "Service", and "Transportation, delivery, and warehousing". The "Other" category was eliminated. This reclassification had the most effect on the "General merchandise", "Food and beverage stores", "Other retail stores", and "Agriculture and mining" major industrial activity categories.

(6)-Totals may not foot due to rounding.

(7)-The Commonwealth does not maintain a list of sales tax filers by either the S.I.C. or N.A.I.C.S. standard industry grouping, and as noted in Note (1), can not disclose the names of the largest filers. Therefore, the number of sales tax licenses are presented to indicate the potential number of filers during the applicable fiscal year.

COMMONWEALTH OF PENNSYLVANIA

	1995	1996	1997	1998	1999	2000	2001	2002 (6)	2003 (6)	2004 (6)
ESTIMATED CORPORATE NET INCOME TAXABLE BASE (1)(2)										
Corporate Tax Report Compilation (expressed in thousands)	$ 13,396,710	$ 16,440,187	$ 14,407,934	$ 15,667,338	$ 15,304,130	$ 14,164,465	$ 12,367,911	$ 13,280,711	$ 13,446,684	$ 16,746,693
NUMBER OF FILERS BY CORPORATE NET INCOME TAX LIABILITY RANGE (3)										
$0	94,830	92,518	89,790	83,935	89,482	98,121	96,637	102,333	95,109	86,375
$1-300	9,772	11,161	11,502	13,125	12,364	11,746	11,128	10,832	10,323	8,977
$301-500	2,551	3,019	3,148	3,529	3,319	3,038	2,900	2,875	2,631	2,377
$501-1,000	4,945	5,464	5,677	6,410	6,297	5,808	4,768	4,345	4,173	3,652
$1,001-5,000	10,578	12,235	12,813	14,080	13,136	12,354	11,060	10,665	10,046	8,974
$5,001-10,000	3,450	4,017	4,421	4,807	4,532	4,058	3,741	3,456	3,258	3,140
$10,001-25,000	2,756	3,211	3,486	3,646	3,485	3,116	2,751	2,760	2,640	2,449
$25,001-50,000	1,396	1,538	1,650	1,780	1,653	1,480	1,413	1,319	1,362	1,284
$50,001-100,000	929	1,124	1,135	1,238	1,172	1,053	903	945	952	905
$100,001-250,000	806	890	954	990	916	880	756	763	785	801
$250,001-500,000	353	391	413	398	370	332	313	309	391	359
$500,001-1,000,000	194	186	206	209	195	201	162	178	178	235
>$1,000,000	172	177	184	190	191	201	184	192	217	231
Total corporate net income tax filers (4)(5)	132,732	135,931	135,379	134,337	137,112	142,388	136,716	140,972	132,065	119,759
Total direct corporate net income tax rate	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%	9.99%

Sources:
Information provided by the Pennsylvania Department of Revenue.

Notes:
(1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). Recent legislation will gradually eliminate the capital stock tax so that the last year for which a tax will apply will be the 2010 tax year. This table presents the positive corporate net income tax base, as well as the number of filers associated with this tax by liability range. It also presents the statutory corporate net income tax rate.
(2)-The CNIT is based on separate company Federal taxable income and includes a number of additions to/subtractions from that base. This table shows the compilation of all reported taxable income (Federal income adjusted to the PA base and then apportioned). Many corporations report negative federal taxable income. In addition, the net operating loss deductions that Pennsylvania allows reduce otherwise profitable corporations' incomes below $0.
(3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest corporate net income tax filers. Therefore, the schedule of the number of filers by corporate net income tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's corporate net income tax revenue. Those filers that report negative state taxable income are reported in the tax liability range of $0, which accounts for the large number of filers within that range.
(4)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of corporate net income subject to the direct corporate tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2005 and 2006 tax years. Therefore, tax years 1995 through 2004 are presented as an alternative comparison.
(5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (i.e. March 31st). This table presents information based on all filers whose tax year ended during the associated calendar years.
(6)-For tax years 1995 through 2002, the amounts presented are actual. The amounts presented for the 2002 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year, since that was an estimate. For the 2003 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2006 CAFR. And for the 2004 tax year, the amounts presented are an estimate.

REVENUE CAPACITY - CORPORATE TAX
Capital Stock/Foreign Franchise Tax

TABLE 10
For the Last Ten Tax Years

COMMONWEALTH OF PENNSYLVANIA

	1995	1996	1997	1998	1999	2000	2001	2002 (6)	2003 (6)	2004 (6)
CAPITAL STOCK AND FRANCHISE TAXABLE BASE (1)(2)										
Apportioned Capital Stock Value Compilation (expressed in thousands)	$ 72,654,892	$ 79,854,213	$ 84,640,644	$ 98,094,135	$ 108,450,000	$ 123,400,000	$ 128,540,000	$ 137,650,000	$ 147,450,000	$ 148,540,000
NUMBER OF FILERS BY CAPITAL STOCK/ FOREIGN FRANCHISE TAX LIABILITY RANGE (3)										
$0-300	154,773	159,124	166,014	177,957	187,654	199,147	212,381	224,961	232,880	231,912
$301-500	6,374	6,951	6,593	7,166	5,815	6,294	7,234	7,282	7,346	7,539
$501-1,000	9,697	10,089	9,605	10,262	11,494	12,337	12,523	12,580	13,095	13,833
$1,001-5,000	21,380	22,789	22,606	24,645	25,983	26,701	26,440	28,484	29,479	28,145
$5,001-10,000	6,186	6,635	6,936	7,506	7,804	7,152	6,883	7,139	7,387	7,037
$10,001-25,000	4,852	5,325	5,641	6,017	6,190	5,783	5,219	5,348	5,541	5,432
$25,001-50,000	2,000	2,184	2,426	2,506	2,601	2,369	2,112	2,171	2,270	2,204
$50,001-100,000	1,085	1,199	1,300	1,416	1,353	1,222	1,103	1,140	1,215	1,165
$100,001-250,000	680	721	851	902	897	814	686	711	787	742
$250,001-500,000	219	253	282	287	303	275	253	274	271	273
$500,001-1,000,000	101	106	127	145	140	114	100	112	152	112
>$1,000,000	89	95	110	104	109	117	103	97	98	81
Total capital stock and franchise tax filers (4)(5)	207,436	215,471	222,491	238,913	250,343	262,325	275,037	290,299	300,521	298,475
Total direct capital stock and franchise tax rate	12.75 mills	12.75 mills	12.75 mills	11.99 mills	10.99 mills	8.99 mills	7.49 mills	7.24 mills	7.24 mills	6.99 mills

Sources:
Information provided by the Pennsylvania Department of Revenue.

Notes:
(1)-Pennsylvania is one of only a few states that levy a tax on corporate net income (corporate net income tax - CNIT) as well as capital stock (capital stock/foreign franchise tax - CSFT). Recent legislation will gradually eliminate the capital stock tax so that the last year for which a tax will apply will be the 2010 tax year. This table presents the capital stock/foreign franchise apportioned tax base, as well as the number of filers associated with this tax by filing class. It also presents the statutory capital stock/foreign franchise tax rate.
(2)-The CSFT is based on a fixed formula involving net worth and average book income. This schedule shows the compilation of all reported taxable capital stock value, as reported by corporate taxpayers required to file a tax return with the Commonwealth.
(3)-Due to statutory requirements protecting taxpayer identification (confidentiality provisions), the Commonwealth can not disclose the names of the ten largest capital stock/foreign franchise tax filers. Therefore, the schedule of the number of filers by capital stock/foreign franchise tax liability range is presented as an alternative comparison regarding the sources of the Commonwealth's capital stock/foreign franchise tax revenue. All corporate filers were required to pay a statutory minimum tax of $300 through 1998 and $200 in 1999, which accounts for the large number of filers within the range of $0-$300. This minimum does not apply to tax years 2000 and after.
(4)-Also, due to the complexity and length of the tax return filing and review process, the total compilation of all reported taxable capital stock value subject to the statutory capital stock/foreign franchise tax rate was not yet available for release by the Pennsylvania Department of Revenue for the 2005 and 2006 tax years. Therefore, tax years 1995 through 2004 are presented as an alternative comparison.
(5)-The corporate filer's tax year is defined as that period for which it must file a tax return. Though some filers have the last day of their filing year fall on December 31st, many filers have a filing year that falls on a different date (i.e. March 31st). This table presents information based on all filers whose tax year ended during the the associated calendar years.
(6)-For tax years 1995 through 2002, the amounts presented are actual. The amounts presented for the 2002 tax year may differ from the amounts presented in the same table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year, since that was an estimate. For the 2003 tax year, the amounts presented are a revised estimate from what was presented in the June 30, 2006 CAFR. And for the 2004 tax year, the amounts presented are an estimate.

DEBT CAPACITY

TABLE 11

Outstanding Debt and Outstanding Debt Ratios

For the Last Six Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands, Except Debt per Capita)

PRIMARY GOVERNMENT (1)(2)	(Restated) 2002	2003	2004	2005	2006	2007
Governmental activities:						
General obligation bonds	$ 6,134,761	$ 7,030,618	$ 7,225,165	$ 7,150,667	$ 7,657,674	$ 8,245,673
Capital leases/installment purchase obligations	629,437	62,131	53,951	47,276	42,059	40,649
Other financing obligations	-	-	100,000	90,000	82,500	76,500
Total governmental	6,764,198	7,092,749	7,379,116	7,287,943	7,782,233	8,362,822
Business-type activities:						
Capital leases/installment purchase obligations	-	-	-	-	28,259	17,375
TOTAL PRIMARY GOVERNMENT	$ 6,764,198	$ 7,092,749	$ 7,379,116	$ 7,287,943	$ 7,810,492	$ 8,380,197
Debt as a Percentage of Personal Income (3)(4)	1.82%	1.86%	1.87%	1.76%	1.81%	1.84%
Amount of Debt per Capita (3)(4)	$ 550	$ 576	$ 597	$ 589	$ 630	$ 674

Source: Statement of Net Assets, as presented in the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year.

Notes:

(1)-Each caption includes the reported current and noncurrent amounts of the outstanding debt.

(2)-Details on the Commonwealth's total outstanding debt for June 30, 2007 can be found in Note K.

(3)-See Table 15 for summarized totals for personal income and population data that were used in the calculations of these ratios. Personal income detail is presented in Table 5. As detailed in Table 5 or 15 (as appropriate), the personal income and population data have changed in several calendar years from what was presented in those tables in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year. As a result, the calculated ratios based on the data from those calendar years may differ from what was presented in this table in the June 30, 2006 CAFR.

(4)-Debt ratios use total outstanding debt which is presented by fiscal year ended June 30, while the personal income and population data used in the calculations are presented by calendar year.

DEBT CAPACITY — TABLE 12

Ratios of Net General Bonded Debt Outstanding

For the Last Six Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

Fiscal Year	(1) General Obligation Bonds	(2) Less: Amounts Restricted to Paying Principal	Total Net General Bonded Debt Outstanding	(3) Percentage of Actual Tax Revenues	(4) Per Capita
2002	$ 6,134,761	$ -	$ 6,134,761	29.73%	$ 499
2003	7,030,618	(32,685)	6,997,933	32.49%	568
2004	7,225,165	(61,029)	7,164,136	30.76%	580
2005	7,150,667	(83,885)	7,066,782	28.30%	571
2006	7,657,674	(8,118)	7,649,556	27.84%	617
2007	8,245,673	(20,474)	8,225,199	28.71%	661

Sources:

Information was obtained from the Commonwealth's Comprehensive Annual Financial Report for the applicable fiscal year. General obligation bonds can be found in the Statement of Net Assets, and the tax revenues used in the percentage of actual tax revenues can be found in the Statement of Activities.

Notes:

(1)-General obligation bonds include the reported current and noncurrent amounts.

(2)-Amounts restricted to paying principal equal the amount restricted for debt service in the Statement of Net Assets.

(3)-The Commonwealth's general obligation bonds are expected to be repaid with general tax revenue. Therefore, the total taxes shown in the Governmental Activities sections of the Statement of Activities is used in this calculation.

(4)-Total net general bonded debt outstanding used in the per capita calculation is presented as of the fiscal year. The population data used in the calculation is shown in Table 15, and is as of July 1 of the applicable fiscal year. As detailed in Table 15, the population data has changed in several calendar years from what was presented in Table 15 in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year. As a result, the per capita calculation based on the data from those calendar years may differ from what was presented in this table in the June 30, 2006 CAFR.

DEBT CAPACITY
Computation of Legal Debt Margin

TABLE 13
As of August 31 for the last ten years

COMMONWEALTH OF PENNSYLVANIA

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Average annual tax revenues deposited in the previous five fiscal years	$ 20,392,050,801	$ 21,241,970,890	$ 22,097,372,526	$ 23,008,382,095	$ 23,661,031,603	$ 24,285,747,191	$ 25,091,013,830	$ 26,141,233,164	$ 27,536,515,720	$ 29,300,406,649
Constitutional factor	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75	x 1.75
Constitutional debt limit for debt incurred without the approval of the electors (A)	35,686,088,902	37,173,449,058	38,670,401,921	40,264,668,666	41,406,805,305	42,500,057,585	43,909,274,203	45,747,158,037	48,188,902,510	51,275,711,636
Less outstanding net debt (non-electorate approved)	3,682,944,258	3,882,412,712	4,106,897,637	4,554,304,562	5,257,508,994	6,021,247,141	6,230,365,064	6,146,947,312	6,399,655,454	6,839,080,189
Legal debt margin (B)	$ 32,003,144,644	$ 33,291,036,346	$ 34,563,504,284	$ 35,710,364,104	$ 36,149,296,311	$ 36,478,810,444	$ 37,678,909,139	$ 39,600,210,725	$ 41,789,247,056	$ 44,436,631,447
Total outstanding net debt applicable to the constitutional limit as a percentage of the constitutional limit	10.32%	10.44%	10.62%	11.31%	12.70%	14.17%	14.19%	13.44%	13.28%	13.34%

Source: The Governor's Office of the Budget

Notes:

(A)-The formula for the legal debt limit is contained in Article VIII, Section 7(a) of the Pennsylvania Constitution, which provides:
No debt shall be incurred by or on behalf of the Commonwealth except by law and in accordance with the provisions of this section.
(1) Debt may be incurred without limit to suppress insurrection, rehabilitate areas affected by man-made or natural disaster, or to implement unissued authority by the electors prior to the adoption of this article.
(2)The Governor, State Treasurer and Auditor General, acting jointly, may (i) issue tax anticipation notes having a maturity within the fiscal year of issue and payable exclusively from revenues received in the same fiscal year, and (ii) incur debt for the purpose of refunding other debt, if such refunding debt matures within the term of the original debt.
(3) Debt may be incurred without limit for purposes specifically itemized in the law authorizing such debt, if the question whether the debt shall be incurred has been submitted to the electors and approved by a majority of those voting on the question.
(4) Debt may be incurred without the approval of the electors for capital projects specifically itemized in a capital budget if such debt will not cause the amount of all net debt outstanding to exceed one and three-quarters times the average of the annual tax revenues deposited in the previous five fiscal years as certified by the Auditor General. For the purposes of this subsection, debt outstanding shall not include debt incurred under clauses (1) and (2)(i), or debt incurred under clause (2)(ii) if the original debt would not be so considered, or debt incurred under subsection (3) unless the General Assembly shall so provide in the law authorizing such debt.

(B)-Each of the above figures used in the calculation of the legal debt margin are abstracted from a certification of the Auditor General dated August 31 of the subsequent fiscal year.

COMMONWEALTH OF PENNSYLVANIA

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Employment by nonfarm related industry (1)(2):										
Private earnings:										
Goods producing:										
Natural resources and mining	20,400	20,800	20,300	19,400	19,500	18,800	17,900	18,700	19,700	20,500
Construction	213,500	220,800	234,500	247,300	249,900	248,100	245,700	249,200	255,700	261,800
Manufacturing	868,800	871,800	862,400	862,300	820,600	758,900	711,600	690,100	679,400	671,900
Total goods producing	1,102,700	1,113,400	1,117,200	1,129,000	1,090,000	1,025,800	975,200	958,000	954,800	954,200
Service providing:										
Trade	1,073,600	1,084,400	1,109,500	1,136,500	1,129,900	1,119,500	1,114,600	1,119,800	1,120,200	1,126,300
Information	118,700	123,100	128,700	135,700	135,400	128,200	120,400	112,100	109,500	108,300
Financial activities	322,600	329,800	335,200	338,100	338,300	336,200	337,900	335,700	335,700	335,500
Professional and business services	539,000	571,100	594,100	611,200	612,300	604,600	609,400	637,200	660,500	676,900
Education and health services	879,700	897,100	903,500	917,000	939,100	963,400	979,000	997,900	1,030,000	1,055,400
Leisure and hospitality	422,700	429,200	440,300	448,800	454,400	465,200	469,400	475,700	484,800	490,300
Other services	232,800	235,200	242,000	249,900	254,800	259,000	259,800	263,400	261,600	259,900
Total service providing	3,589,100	3,669,900	3,753,300	3,837,200	3,864,200	3,876,100	3,890,500	3,941,800	4,002,300	4,052,600
Total private earnings	4,691,800	4,783,300	4,870,500	4,966,200	4,954,200	4,901,900	4,865,700	4,899,800	4,957,100	5,006,800
Government	714,600	711,500	715,600	725,100	728,300	738,900	745,600	744,400	745,100	746,400
Total nonfarm	5,406,400	5,494,800	5,586,100	5,691,300	5,682,500	5,640,800	5,611,300	5,644,200	5,702,200	5,753,200

Source: Information provided by the Pennsylvania Department of Labor and Industry (http://www.paworkstats.state.pa.us/default.asp).

Notes:
(1)-Due to statutory requirements (confidentiality provisions), the Commonwealth can not disclose the number employed by the ten largest employers. As an alternative comparison, this schedule presents the number employed by nonfarm related industries. The ten largest employers are nonfarm related; therefore, the number employed by those employers could be expected to fall within this schedule. Farming related employment is not included on this schedule because most farms are not large enough to be required to provide the necessary data to the Pennsylvania Department of Labor and Industry.
(2)-Data presented for calendar years 1997-2005 are estimates that were benchmarked to universe counts derived from administrative files of employees covered by unemployment insurance. As a result of this benchmarking, the data provided for the 2005 calendar year has changed from what was presented in this table in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year. The amount presented in the 2006 calendar year is a sample-based estimate that has not been benchmarked.

DEMOGRAPHIC AND ECONOMIC — TABLE 15
Population and Per Capita Personal Income — *For the Last Ten Calendar Years*

COMMONWEALTH OF PENNSYLVANIA

Calendar Year	Population (1) (Expressed in thousands)			Personal Income (2) (Expressed in millions)			Per Capita (3) Personal Income		
	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania as % of U.S.	Pennsylvania	United States	Pennsylvania percentage above/(below) U.S.
1997	12,228	272,647	4.48%	$ 311,507	$ 6,907,332	4.51%	$ 25,475	$ 25,334	0.56%
1998	12,246	275,854	4.44%	330,161	7,415,709	4.45%	26,961	26,883	0.29%
1999	12,264	279,040	4.40%	342,612	7,796,137	4.39%	27,937	27,939	-0.01%
2000	12,287	282,217	4.35%	364,837	8,422,074	4.33%	29,693	29,843	-0.50%
2001	12,296	285,226	4.31%	372,339	8,716,992	4.27%	30,281	30,562	-0.92%
2002	12,322	288,126	4.28%	382,252	8,872,871	4.31%	31,023	30,795	0.74%
2003	12,351	290,796	4.25%	393,908	9,150,320	4.30%	31,892	31,466	1.35%
2004	12,377	293,638	4.22%	413,901	9,711,271	4.26%	33,440	33,072	1.11%
2005	12,405	296,507	4.18%	431,836	10,284,378	4.20%	34,810	34,685	0.36%
2006	12,441	299,398	4.16%	456,429	10,966,808	4.16%	36,689	36,629	0.16%

Sources: Population data is obtained from the U.S. Department of Commerce, Bureau of Economic Analysis website (http://www.bea.gov/regional/spi/defualt.cfm) , whose source is the U.S. Bureau of Census' December 2006 release of annual population estimates. Personal income details can be found in Table 5.

Notes:

(1)-Population data is presented as of July 1 of the calendar year. The U.S. Bureau of Census' December 2006 release included revisions to the annual population estimate back to the 2000 calendar year. Therefore, the totals shown may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year.

(2)-Personal income data is provided as of the calendar year. Calendar years 2003-2005 differ from the totals presented in the June 30, 2006 CAFR. See Table 5 for details.

(3)-As a result of changes noted in Notes (1) and (2), the Per Capita Personal Income may differ from what was presented in the June 30, 2006 CAFR.

DEMOGRAPHIC AND ECONOMIC — TABLE 16
Employment Information — *For the Last Ten Calendar Years*

COMMONWEALTH OF PENNSYLVANIA

(Expressed in Thousands)

Calendar Year	Pennsylvania (1)				United States				
	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	Civilian Labor Force	Employed	Unemployed	Unemployment Rate	PA rate percentage Above/(Below) U.S. Rate
1997	6,086	5,775	311	5.1	136,297	129,558	6,739	4.9	4.08%
1998	6,068	5,788	281	4.6	137,673	131,463	6,210	4.5	2.22%
1999	6,078	5,810	268	4.4	139,368	133,488	5,880	4.2	4.76%
2000	6,086	5,831	255	4.2	142,583	136,891	5,692	4.0	5.00%
2001	6,168	5,874	293	4.8	143,734	136,933	6,801	4.7	2.13%
2002	6,218	5,869	349	5.6	144,863	136,485	8,378	5.8	-3.45%
2003	6,169	5,818	351	5.7	146,510	137,736	8,774	6.0	-5.00%
2004	6,229	5,890	339	5.4	147,401	139,252	8,149	5.5	-1.82%
2005	6,279	5,966	313	5.0	149,320	141,730	7,591	5.1	-1.96%
2006	6,306	6,010	296	4.7	151,428	144,427	7,001	4.6	2.17%

Sources: Employment data was provided by the Pennsylvania Department of Labor and Industry, Center for Workforce Information & Analysis in cooperation with the United States Department of Labor, Bureau of Labor Statistics.

Notes:

(1)-Beginning with the 2002 Calendar Year, the amounts presented for Pennsylvania may differ from the amounts presented in the same table in the June 30, 2006 CAFR, as a result of revised data provided by the Pennsylvania Department of Labor and Industry.

Commonwealth Employees by Function and Agency

For the Last Ten Fiscal Years Ended June 30

COMMONWEALTH OF PENNSYLVANIA

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Direction and supportive services										
Legislative	2,937	2,751	3,018	3,040	3,095	3,161	3,206	3,268	3,336	3,339
Revenue	2,385	2,406	2,454	2,519	2,421	2,382	2,272	2,322	2,377	2,385
Executive Offices	2,457	2,508	2,521	2,569	2,611	2,513	1,986	1,962	1,990	1,966
General Services	1,273	1,249	1,267	1,338	1,319	1,313	1,242	1,255	1,295	1,305
Auditor General	774	780	793	799	785	770	768	736	740	711
Treasurer	525	517	551	543	537	524	511	497	534	565
Other	601	600	556	602	643	361	425	379	376	327
Total direction and supportive services	10,952	10,811	11,160	11,410	11,411	11,024	10,410	10,419	10,648	10,598
Protection of persons and property										
Corrections	12,333	12,831	13,707	14,421	14,612	14,323	14,384	14,826	15,301	15,441
State Police	5,352	5,507	5,564	5,648	5,673	5,705	5,790	6,039	6,191	6,272
Liquor Control Board	3,825	3,860	3,941	4,032	4,146	4,205	4,407	4,580	4,772	4,704
Environmental Protection	2,912	2,890	2,965	3,022	3,016	2,938	2,836	2,831	2,890	2,799
Judiciary	1,740	1,775	1,940	1,962	2,048	2,031	2,100	2,102	2,140	2,130
Transportation	-	-	-	-	-	-	1,208	1,253	1,251	1,253
Agriculture	805	809	815	903	973	950	997	968	1,032	1,056
Probation and Parole Board	876	892	917	951	975	966	972	1,001	1,008	967
Attorney General	904	955	971	1,017	990	952	944	886	919	935
Public Utility Commission	515	499	502	509	503	494	467	469	529	485
Military and Veterans Affairs	-	-	-	-	-	-	459	489	529	517
Other	1,085	1,103	1,110	1,139	1,170	1,310	2,012	2,025	2,106	2,088
Total protection of persons and property	30,347	31,121	32,432	33,604	34,106	33,874	36,576	37,469	38,668	38,647
Public education										
Education	1,219	1,230	861	908	873	852	624	672	674	665
Other	20	20	19	22	21	20	20	18	18	18
Total public education	1,239	1,250	880	930	894	872	644	690	692	683
Health and human services										
Public Welfare	23,475	22,322	21,575	21,480	21,115	20,189	19,773	19,769	19,655	18,786
Labor and Industry	5,815	5,585	5,480	5,557	5,841	5,821	4,431	4,370	4,462	4,277
Military and Veterans Affairs	1,827	1,868	1,964	2,053	2,106	2,262	1,939	2,015	2,060	2,095
Health	1,242	1,258	1,305	1,347	1,399	1,444	1,404	1,429	1,524	1,465
Other	100	103	101	107	108	104	99	109	112	107
Total health and human services	32,459	31,136	30,425	30,544	30,569	29,820	27,646	27,692	27,813	26,730
Economic development										
Labor and Industry	-	-	-	-	-	-	923	911	960	927
Community and Economic Development	299	313	322	325	327	296	298	324	336	346
Total economic development	299	313	322	325	327	296	1,221	1,235	1,296	1,273
Transportation										
Transportation	12,195	12,094	12,302	12,360	12,393	12,086	10,645	10,578	10,810	10,509
Total transportation	12,195	12,094	12,302	12,360	12,393	12,086	10,645	10,578	10,810	10,509
Recreation and cultural enrichment										
Conservation and Natural Resources	2,674	2,690	2,742	2,775	2,768	2,707	2,632	2,608	2,639	2,573
Game Commission	679	692	747	810	769	754	758	734	732	734
Fish and Boat Commission	530	521	522	537	514	468	482	492	497	514
Historical and Museum Commission	438	462	480	494	504	503	488	444	435	419
Other	20	20	20	20	20	20	116	111	114	113
Total recreation and cultural enrichment	4,341	4,385	4,511	4,636	4,575	4,452	4,476	4,389	4,417	4,353
Total Commonwealth Employees	91,832	91,110	92,032	93,809	94,275	92,424	91,618	92,472	94,344	92,793

Source: Employees for the Legislature, Judiciary, Auditor General, Treasury and Attorney General were provided by the individual agency. All other agencies fall within the Governor's jurisdiction and were provided by the Office of Administration.

Notes: Beginning with the 2004 fiscal year, employee data was available both by function and agency and is shown appropriately in the table. For the fiscal years prior to 2004 employee data was only available by agency. For purposes of this table, the complement for fiscal years 1998 through 2003 is reported by function based on the agency's most prevalent functional activity.

OPERATING INFORMATION **TABLE 18**

Operating Indicators by Function and Agency **For the Last Ten Fiscal Years Ended June 30**

COMMONWEALTH OF PENNSYLVANIA

	1998	1999	2000	2001	2002	2003	2004	2005	2006 (9)	2007(9)
GOVERNMENTAL ACTIVITIES										
Direction and supportive services:										
Executive Offices										
Contact hours of briefings/training for Human Resource professionals/others	N/A	N/A	N/A	N/A	N/A	N/A	N/A	14,778	18,000	18,000
Treasury										
Disbursements - checks	N/A	6,400,000	6,317,110	8,454,206	5,831,568	6,012,497	5,217,339	5,000,249	4,838,121	4,147,577
Disbursements - wires	N/A	3,300,000	3,628,047	3,947,535	4,269,328	4,571,640	5,355,924	6,047,788	6,484,759	6,252,916
Total disbursements	10,006,950	9,700,000	9,945,157	12,401,741	10,100,896	10,584,137	10,573,263	11,048,037	11,322,880	10,400,493
Legislature										
General and appropriation acts (1)	320	N/A	291	N/A	433	N/A	385	N/A	364	N/A
House/Senate bills introduced (1)	4,571	N/A	4,481	N/A	4,613	N/A	4,242	N/A	4,450	N/A
Protection of persons and property:										
Corrections										
Inmates (2)	34,964	36,377	36,384	36,810	37,995	40,090	40,817	40,965	42,446	44,365
Inmates enrolled in academic educational programs (2)	8,884	9,190	9,162	10,357	10,600	11,286	11,749	11,680	13,457	14,453
Environmental Protection										
Inspections completed	N/A	N/A	N/A	N/A	N/A	N/A	100,042	104,237	82,392	81,000
Revenue										
Total - electronic	N/A	N/A	N/A	N/A	N/A	N/A	2,272,861	2,520,663	2,813,228	2,575,000
Total - paper	N/A	N/A	N/A	N/A	N/A	N/A	3,494,305	3,288,166	3,994,634	3,375,000
Total personal income tax returns processed	5,797,000	5,704,755	5,707,558	5,895,045	5,901,402	5,862,231	5,767,166	5,808,829	6,807,862	5,950,000
State Police										
Traffic citations issued	461,998	486,104	449,430	484,749	503,352	484,602	438,328	451,160	479,086	470,889
Criminal arrests for crimes against persons or property (3)	11,946	12,440	11,534	12,288	12,600	12,122	12,030	13,024	14,054	14,436
Background Checks:										
Firearms checks conducted for the purchase of a firearm	N/A	N/A	N/A	N/A	N/A	N/A	10,406	514,287	512,686	517,813
Criminal history checks for employment purposes	N/A	N/A	N/A	N/A	N/A	N/A	964,507	1,074,325	1,183,426	1,242,597
Judiciary										
Caseload (cases filed/reopened/appeals) (2)	3,465,108	3,726,054	3,581,305	3,709,824	3,813,843	3,789,239	3,598,042	3,790,068	3,783,987	3,810,660
Public education:										
Education										
PreK-12 EDUCATION (BASIC EDUCATION):										
Public school enrollment (preK-12) (4)	1,815,151	1,816,566	1,816,716	1,814,311	1,821,627	1,816,747	1,821,146	1,828,089	1,830,684	1,821,710
HIGHER EDUCATION:										
Full-Time Equivalent Enrollments at State-Supported Institutions of Higher Education:										
State System of Higher Education	87,286	88,160	89,010	89,924	93,520	96,235	95,523	98,657	100,392	101,369
Community Colleges	63,913	64,808	64,394	67,030	75,088	80,874	86,935	88,494	88,150	90,908
State-Related Universities	127,822	128,967	130,805	133,200	136,581	140,375	140,806	140,697	139,894	143,106
Non-State Related Universities and Colleges	33,608	35,034	36,626	38,199	39,399	39,741	41,678	43,106	43,662	44,432
Health and human services:										
Aging										
Comprehensive PACE/PACENET Program:										
Older Pennsylvanians enrolled (average)	266,787	251,314	240,298	232,372	230,949	223,119	242,755	290,482	306,138	325,735
Total prescriptions per year	8,989,455	9,140,390	9,530,401	9,744,249	10,228,661	10,672,686	10,888,090	12,794,090	13,253,256	14,829,153
Health										
Surveys completed in a timely manner by facility type:										
Hospitals within 24 months	N/A	N/A	N/A	N/A	N/A	115	115	115	127	115
Nursing homes surveys completed within 15 months	N/A	N/A	N/A	N/A	N/A	744	735	736	763	740
Intermediate care facilities/MR within 12 months	N/A	N/A	N/A	N/A	N/A	186	186	194	215	214
Home health agencies within 12 months	N/A	N/A	N/A	N/A	N/A	364	364	364	400	364
Vital events (births, deaths, fetal deaths) registered and processed (5)	393,500	390,367	397,495	390,134	328,033	272,860	274,664	273,432	274,105	273,800
Total number of encounters by State Health Care Centers	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	375,240	422,220

COMMONWEALTH OF PENNSYLVANIA

	1998	1999	2000	2001	2002	2003	2004	2005	2006 (9)	2007(9)
Public Welfare										
Persons participating in Medical Assistance (monthly average)	1,457,151	1,419,562	1,409,095	1,433,228	1,476,708	1,533,024	1,621,901	1,747,615	1,833,760	1,905,529
Persons receiving cash assistance (monthly average)	417,976	333,740	272,990	242,214	229,660	225,396	250,581	278,474	278,496	264,407
Children participating in subsidized child care (unduplicated)	N/A	N/A	N/A	N/A	N/A	182,102	185,971	195,211	200,650	221,186
Total persons provided mental health services (6)	203,089	204,076	200,732	203,812	207,269	202,460	208,345	398,590	418,749	522,162
Persons receiving Mental Retardation services during fiscal year (7)	71,575	73,900	74,000	76,988	82,220	85,000	89,985	72,538	45,414	45,965
Economic development:										
Community and Economic Development										
Jobs pledged to be created in Business and Technology Development	N/A	N/A	N/A	N/A	N/A	N/A	63,870	78,500	154,951	97,355
Jobs retained in Business and Technology Development	N/A	N/A	N/A	N/A	N/A	N/A	54,209	108,864	92,768	71,765
Total Jobs created/retained in Business and Technology Development (8)	139,372	150,969	185,520	249,876	N/A	N/A	N/A	N/A	N/A	N/A
Businesses Assisted in Business and Technology Development	2,560	2,451	2,662	2,739	8,243	9,113	22,305	19,781	16,215	18,151
Local Governments assisted	573	664	675	420	475	594	766	711	1,265	720
Persons participating in Community Services Block Grant	633,991	330,000	244,844	243,497	272,983	270,006	324,436	339,564	339,564	339,964
Labor and Industry										
Total public health and safety inspections performed	139,321	131,215	131,365	135,590	135,567	134,352	122,584	117,056	82,123	84,000
Total Vocational Rehabilitation Caseload	68,808	74,999	78,138	77,622	81,391	83,696	82,262	86,814	84,619	82,891
Transportation:										
Transportation										
Miles of State maintained highways	40,244	40,162	40,101	40,051	39,935	39,906	39,893	39,890	39,890	39,841
Passengers carried by State-assisted operators (millions annually)	284.4	282.5	293.7	310.1	301.8	301.9	303.5	310.0	400.8	411.8
Safety and Emissions inspections	12,340,200	12,657,225	12,641,070	13,603,449	13,589,000	13,617,103	15,000,000	17,100,000	17,388,858	17,450,000
Registrations:										
Registrations-Total New and Renewed	9,990,000	9,921,000	10,015,000	10,052,000	9,825,000	10,099,000	9,978,000	10,017,000	9,864,461	9,882,306
Licensed drivers-Total New and Renewed	2,337,300	2,259,500	2,284,900	2,320,900	2,130,859	2,302,100	2,476,213	2,377,057	2,345,311	2,400,000
Recreation and cultural enrichment:										
Conservation and Natural Resources										
State park attendance (visitor days per calendar year)	36,400,000	34,700,000	36,712,000	36,438,000	36,627,000	36,031,000	34,692,000	35,095,476	36,295,873	36,300,000
Fish and Boat Commission										
Fishing licenses sold	995,659	978,925	934,723	953,032	935,845	907,313	909,053	834,877	843,302	850,000
Game Commission										
Hunting licenses sold	1,063,366	961,662	1,033,315	1,038,846	1,047,820	1,017,154	1,018,248	1,007,613	964,158	964,000
Historical and Museum Commission										
Records maintained by the State Records Center	N/A	N/A	N/A	N/A	N/A	N/A	709,821	726,747	753,354	768,747
Annual visits to commission historical sites and museums (in thousands)	1,377	1,244	1,273	1,295	1,406	1,517	1,528	1,477	1,516	1,563
BUSINESS-TYPE ACTIVITIES										
Labor and Industry										
Number of new unemployment compensation claims	1,101,409	1,138,641	1,036,558	983,951	1,309,511	1,314,267	1,341,118	1,177,499	1,148,256	1,176,669

Sources: Governor's Office of the Budget, comptroller offices, various agencies

Notes:

(1) Legislation acts and bills are presented per the Legislature's two-year session. Amounts presented for the 2005-2006 session are final. Results are not yet known for the 2007-2008 session.

(2) Amounts are presented as of December 31 .

(3) Arrests per 100,000 population in State Police jurisdiction areas.

(4) PreK enrollment is not included through the 2003 fiscal year.

(5) The decrease in Vital Events from 2001 to 2002 is due to Act 82 of 2001, which eliminated some requirements for the processing of marriage and divorce records.

(6) Beginning with the 2005 fiscal year, this amount was revised to include individuals receiving services from community mental health funds, Medical Assistance expenditures, and BHSI funds.

(7) Beginning with the 2005 fiscal year, this amount was revised to remove those receiving Early Intervention services.

(8) Beginning with the 2002 fiscal year, this category was reevaluated and then no longer measured in its current form. Subsequent years are then marked with N/A.

(9) For the 2007 fiscal year, a majority of the indicators presented are estimates. For the 2006 fiscal year, the amounts that were presented as estimates in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year have been revised. Therefore, the amounts shown may differ from what was presented in the June 30, 2006 CAFR.

COMMONWEALTH OF PENNSYLVANIA

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Direction and Supportive Services										
Department of General Services										
Number of buildings (1)	32	33	33	33	33	36	36	36	85	85
Total pieces of machinery and equipment (2)	56	58	71	80	48	164	137	137	137	139
Capital and Agency projects in design and/or construction (3)	479	428	422	426	367	389	375	500	409	590
Vehicles in fleet (4)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16,544	16,337	16,307
Protection of persons and property										
Department of Corrections										
State Correctional Institutions (5)	24	25	25	25	26	26	26	27	26	26
State Police										
Patrol vehicles	1,848	1,914	2,009	2,199	2,215	2,207	2,188	2,282	2,316	2,173
Police stations and/or troop headquarters (5)	20	20	20	20	20	20	21	23	23	23
Department of Military and Veterans Affairs										
Number of armories	105	96	96	97	97	97	96	117	117	117
Public education										
State System of Higher Education (SSHE)-Component Unit (6)										
Number of SSHE universities using Commonwealth owned buildings and land	14	14	14	14	14	14	14	14	14	14
Health and human services										
Department of Public Welfare										
Total number of hospital or treatment center complexes (1)(5)	26	25	23	22	22	22	22	21	19	19
Transportation										
Department of Transportation										
Total pieces of equipment	N/A	N/A	N/A	25,211	20,434	21,281	21,256	20,858	20,434	22,000
Total lane miles of highways (state or locally maintained)	115,308	115,467	115,677	115,939	116,282	116,570	115,402	116,055	116,100	116,335
Recreational and cultural enrichment										
Department of Conservation and Natural Resources										
Acres of land in state parks and forests (in millions)	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Game Commission										
Acres of game lands (in millions)	1.3	1.36	1.36	1.36	1.41	1.41	1.4	1.4	1.4	1.4
Fish Commission										
Public boat launches	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	178	153
Total number of fish hatcheries	15	15	15	15	15	15	15	15	15	15
Historical and Museum Commission										
Museums and historic sites	28	28	28	26	26	26	26	26	25	25
Economic Development										
Department of Labor and Industry										
Square footage of rehabilitation centers owned by the Commonwealth	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035	444,035

Sources: Governor's Office of the Budget, Comptroller Offices and various agencies.

Notes:
(1)-Beginning with the 2006 fiscal year, the control of the Harrisburg State Hospital was transferred from the Department of Public Welfare (reducing the reported number of hospital complexes) to the Department of General Services (increasing the reported number of buildings).
(2)-Beginning with the 2003 fiscal year, the reported machinery and equipment includes assets that were depreciated in full.
(3)-This category was expanded to include all reported projects, including those in the design phase, and was applied retroactively to each of the ten years shown in this table. Therefore, the amounts presented may differ from what was presented in the Commonwealth's Comprehensive Annual Financial Report (CAFR) for the June 30, 2006 fiscal year.
(4)-Beginning with the 2007 fiscal year, this category was added to this table, and has been retroactively reported for the 2005 and 2006 fiscal years.
(5)-State Correctional Institutions, police station/troop headquarters and hospital/treatment center complexes include nondepreciable capital assets (i.e. land) and depreciable assets (i.e. machinery and equipment, buildings, improvements, etc.).
(6)-The State System of Higher Education (SSHE) is a discretely presented component unit. However, each of its universities uses land, buildings, and improvements which were purchased by the Commonwealth and are still reported as governmental activities capital assets in the Commonwealth's Statement of Net Assets. See Note A in the Notes to the Financial Statements for a detailed description of this relationship.